Discussion and Analysis of Operations

HUD's major program areas fall into three categories:

HUD's grant, subsidy, and loan programs

The Federal Housing Administration (FHA)

The Government National Mortgage Association (Ginnie Mae)

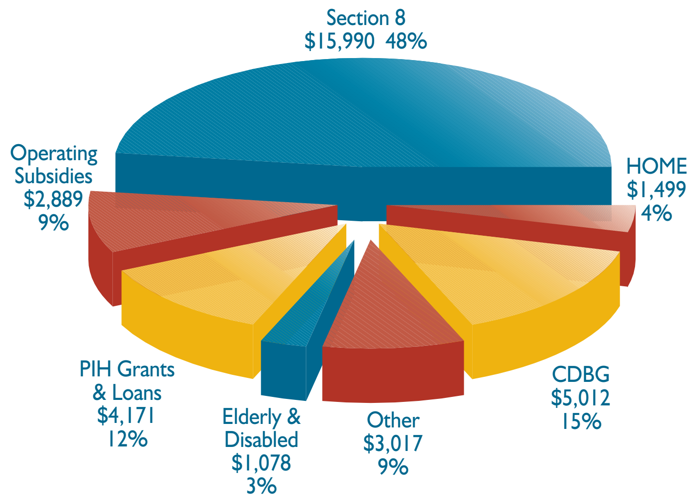
Grant, Subsidy, and Loan Programs

HUD's most significant grant, subsidy, and loan programs, in terms of expenses, are:

- Section 8 Lower Income Rental Assistance;
- HOME Investment Partnerships;
- Community Development Block Grants;
- Housing for the Elderly and Disabled;
- Public and Indian Housing Grants and Loans; and
- Operating Subsidies for Public Housing Agencies.

The consolidating financial statements provide information for each of the above programs. Expenses during FY 2000 for HUD's grant, subsidy and loan programs totaled $33.656 billion compared to $33.4 billion during FY 1999.

Grant, Subsidy, and Loan Program Expenses for FY 2000
(Dollars in Millions)



FHA and Ginnie Mae

FHA provides insurance on mortgages on one-to-four family residences, multifamily rental housing, and other qualified mortgaged properties. Ginnie Mae guarantees the timely payment of principal and interest to privately issued securities backed by pools of mortgages insured or guaranteed by FHA, the Department of Veterans Affairs, and the Rural Housing Service. The program objectives carried out by FHA and Ginnie Mae relate directly to developing affordable housing.

Strategic Goal 1: Increase the Availability of Decent, Safe, and Affordable Housing in American Communities

One of HUD's most important roles is to increase the availability of decent, safe and affordable housing for all Americans. Many HUD programs are dedicated to expanding opportunities for those who wish to become homeowners. In addition, HUD strives to improve rental housing affordability, availability and accessibility for low- and moderate-income individuals and families. Although the quality of U.S. housing has steadily improved over the past five decades, actions to reduce or eliminate remaining hazards and substandard conditions and make housing more resistant to disasters are still vital. These perspectives are summarized in the Department's three strategic objectives under this goal:

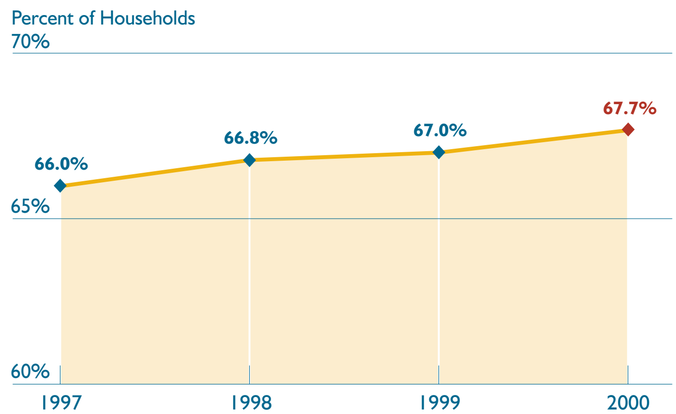
- Homeownership is increased.
- Affordable rental housing is available for low-income households.
- America's housing is safer, of higher quality and disaster resistant.

Strategic Objective 1.1: Homeownership is increased.

Through homeownership, an individual or family makes an investment in the future. A home is an asset that can grow in value and provide capital to finance future needs of a family, such as college for children or financial security for retirement. Additionally, homeownership helps stabilize neighborhoods, strengthen communities, and stimulate economic growth.

HUD has contributed significantly to the Nation's marked progress in raising the homeownership rate. Homeownership has risen steadily since 1993, and by the end of FY 2000 reached a quarterly rate of 67.7 percent. The achievement represented an all-time high for the fourth year running and exceeded the FY 2000 performance goal (1.1.1).[1]

Overall Homeownership Rate



HUD programs focus homeownership promotion on populations and geographic areas that lag behind. In a positive sign of regeneration, central cities have gained homeowners, in part through HUD efforts. In the third quarter of calendar year 2000, the central city homeownership rate was 51.9 percent, up from 50.5 percent in 1998 (performance goal 1.1.4).

HUD has a wide variety of programs that support homeownership. The programs with the greatest impact on homeownership are Federal Housing Administration mortgage insurance and the Government National Mortgage Association (Ginnie Mae). These organizations cut the costs of homeownership—including financing, production, and transaction costs and fees—to make homeownership more affordable and financing more widely available. Other programs that contribute to homeownership are the Community Development Block Grants (CDBG) and HOME (HOME Investment Partnerships) programs, and the Section 8 homeownership program. Homeownership is

[1] *Performance goals in this section are referenced according to the FY 2000 Annual Performance Plan (APP). Performance is discussed in greater detail in Section III, and background information about the measure and data is presented in the APP.*

further advanced through goals set by HUD for the housing government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac.

Overview of the Federal Housing Administration

The Federal Housing Administration (FHA) was established under the National Housing Act of 1934 to improve housing standards and conditions, provide an adequate home financing system by insurance of housing mortgages and credit, and stabilize the mortgage market. FHA was consolidated into HUD in 1965. For over 60 years, FHA has successfully supported the availability of capital for single family and multifamily homeownership and for the development of affordable rental housing, stabilizing the housing markets and providing homeownership opportunities.

FHA Funds. FHA insures private lenders against loss on mortgages that finance single family homes, multifamily rental projects and healthcare facilities. FHA also insures private lenders against loss on loans for property improvements and manufactured homes. Its activities are financed by the FHA Funds, which are supported through premium and fee income, interest income, congressional appropriations, borrowings from the U.S. Treasury (Treasury) and other sources. The FHA Funds are:

- The Mutual Mortgage Insurance (MMI) Fund, a historically self-sustaining fund that supports FHA's basic single family homeownership program.
- The General Insurance (GI) Fund, which supports a wide variety of multifamily and single family insured loan programs for rental apartments, cooperatives, condominiums, housing for the elderly, nursing homes, hospitals, property improvement, manufactured housing (Title I) and disaster assistance.
- The Special Risk Insurance (SRI) Fund, which supports multifamily rental projects and loans to high risk borrowers.
- The Cooperative Management Housing Insurance (CMHI) Fund, a historically self-sustaining fund that supports insurance on market-rate cooperative apartment projects. This fund is no longer active, except for refinancing.

Insurance-In-Force. At the end of FY 2000, the MMI Fund constituted 82.6 percent of the FHA Enterprise Fund; the GI Fund, 16.1 percent; the SRI Fund, 1.26 percent; and the CMHI Fund, 0.04 percent. The total mortgage insurance-in-force in the FHA Fund was $545 billion, an increase of 7.16 percent, or approximately $36 billion, from the FY 1999 level. Between FY 1999 and FY 2000, insurance-in-force in the MMI Fund increased by $38 billion, the GI Fund decreased by $1.3 billion, and the SRI Fund experienced a modest decrease of $0.6 billion.

FHA's single family mortgage insurance business accounted for 90.1 percent of its insurance-in-force. The multifamily and health care insurance was 9.9 percent, and Title I property improvement and manufactured home insurance constituted less than 0.1 percent.

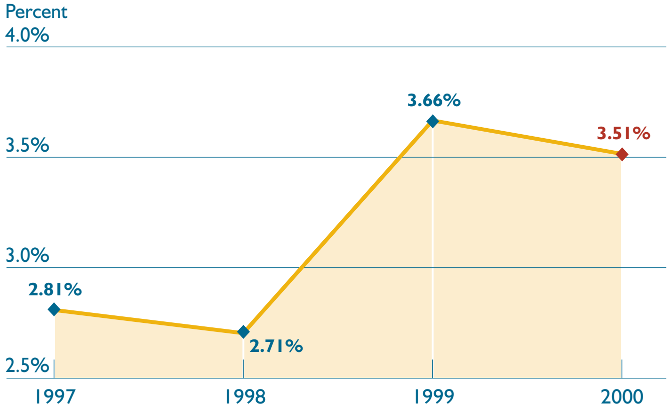
FHA Single Family Programs

FHA endorsed 921,283 single family mortgage loans in fiscal 2000 (including refinancing), down from 1,291,269 in FY 1999 because of increasing interest rates (performance goal 1.1.e). In FY 2000, FHA played a major role in achieving the record homeownership rate by endorsing 685,286 loans to first-time homebuyers, or 81.6 percent of new endorsements, excluding refinancing (performance goal 1.1.f). FHA activities contributed to the record rate of homeownership by families with incomes below the area median: 52.2 percent in the third quarter of 2000, compared with 51.4 percent in 1999 (performance goal 1.1.3).

MMI Capital Ratio. The MMI Fund supports over 90 percent of FHA's single family insurance-in-force. The financial soundness of this fund is measured by the MMI capital ratio. The National Affordable Housing Act of 1990 requires an independent actuarial analysis of the economic net worth of the MMI Fund. The Act also mandates that the MMI

Fund maintain a capital ratio (a measure of the Fund's cushion against unexpected insurance losses) of at least 2 percent. The cushion ensures that FHA's basic single family insurance program could withstand unexpected losses without exposing the taxpayers to financial risk.

Capital Ratio of the FHA Mutual Mortgage Insurance Fund

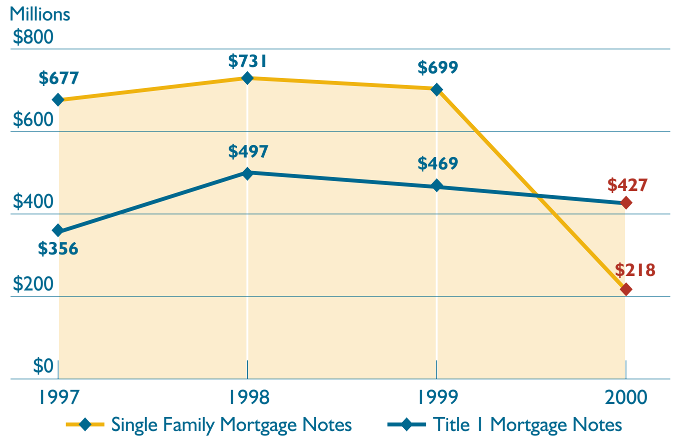


The MMI Fund's capital ratio was estimated at 3.51 percent at the end of FY 2000, compared with 3.66 percent in FY 1999 (performance goal 1.1.c).

Secretary-Held Mortgage Notes and Property. Prior to 1996, FHA-insured mortgage notes were assigned to the Secretary when FHA paid a claim prior to foreclosure and took possession of the note for servicing. In 1996 the program was terminated because of the high cost of servicing assigned notes. During FY 1999, notes held by borrowers who applied for the program before April 1996 were again assigned to HUD.

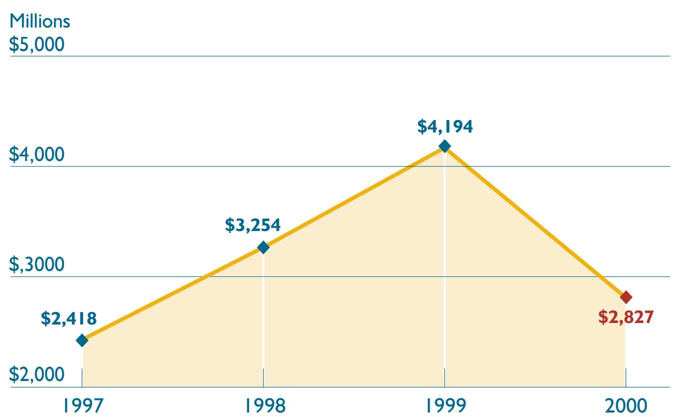
FHA has reduced its costs of operation by reducing inventories of assigned single-family and Title I notes from approximately $3.317 billion in FY 1996 to $645 million in FY 2000 through bulk note sales. The number of single family notes in inventory decreased by 91 percent, in large part because of the sale of notes at the end of FY 2000. The number of Title I notes in inventory declined by 10 percent because of collections and write-offs. As a result, the overall unpaid principal balance of Secretary-held mortgage notes, including multifamily notes, decreased by 10 percent from $3.303 billion in FY 1999 to $2.988 billion in FY 2000. The table below shows that the unpaid balance of single-family notes held by the Secretary decreased by 69 percent between FY 1999 and FY 2000, to $218 million.

Single-Family Mortgage Notes Held by the Secretary as of September 30th



FHA acquires single family and multifamily properties through conveyance claims, or by foreclosing on single-family notes that were assigned to the Secretary. The table below shows that single-family property holdings fell by 33 percent in FY 2000 to $2,827 million, because FHA sold 33 percent more single family properties than in FY 1999. The increase in sales pushed back the trend of rising single family holdings that resulted from property conveyances, which occurred following the termination of the Single Family note assignment program and high claim rates among borrowers who selected adjustable rate mortgages (ARMs). In 1998, FHA took measures to reduce the frequency of ARM claims in the future.

Single-Family Property Held by the Secretary as of September 30th



FHA implemented new real estate owned (REO) procedures in March 1999 to streamline the property disposition process. Under the new contracting procedures, management and marketing (M&M) contractors assume responsibility for the management and sale of Secretary-held properties in inventory. Beginning this fiscal year, FHA also began to allow M&M contractors to lower the selling price over a period of time, within a specified range, to facilitate the disposition process.

Ginnie Mae

The Government National Mortgage Association (Ginnie Mae), a wholly-owned Government corporation within HUD, was created by Congress in 1968. Ginnie Mae's mission is to support affordable homeownership for low- and moderate-income families by providing liquidity to the secondary mortgage market and by attracting capital from the Nation's capital markets into residential mortgage markets. This activity helps to keep mortgage rates lower and to make more mortgages available.

FY 2000 was another year of very favorable financial achievement marked by increases in both revenues and assets. Ginnie Mae achieved record net income of $762.8 million, a 2.1 percent increase from $746.8 million in FY 1999. In FY 2000, Ginnie Mae production provided the capital to finance the purchase or refinance of homes for approximately 1.1 million families.

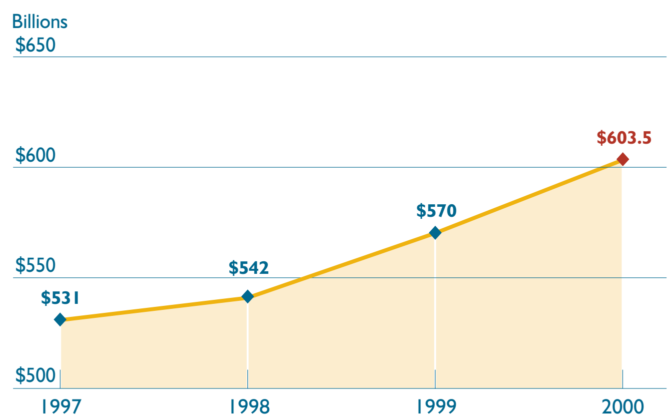
Ginnie Mae's principal products are mortgage backed securities (MBS), created when mortgage loans are pooled by eligible issuers. Commonly referred to as "pass-through" certificates, these MBS entitle an investor to an undivided interest in the underlying mortgage loan pool. Ginnie Mae-issued securities are backed by pools of residential mortgages insured or guaranteed by FHA, the Department of Veterans Affairs (VA), the Rural Housing Service (RHS) and HUD's Office of Native American Programs. Ginnie Mae, backed by the full faith and credit of the U.S., guarantees the timely payment of principal and interest to investors. Through its MBS program, Ginnie Mae increases the liquidity and efficiency of mortgage loan funding, making more capital available to low- and moderate-income homeowners at competitive interest rates.

Since inception of the MBS Program in 1970, Ginnie Mae has guaranteed the issuance of approximately $1.7 trillion in securities, providing the capital to purchase or refinance 25.5 million homes. In FY 2000, Ginnie Mae guaranteed the securitization of 86.2 percent of eligible FHA and VA loans, down slightly from 87.2 percent in FY 1999 because of increasing competition (performance goal 1.1.a).

Ginnie Mae issued commitments for $87.5 billion in new MBS guarantees during FY 2000, down 56 percent from FY 1999 commitments. The volume of new MBS guarantees declined in FY 2000 because interest rates were higher and the rapid growth of the housing market slowed. Ginnie Mae issued a total of $105.5 billion of MBS guarantees, down 35.5 percent from FY 1999. Of these new securities, $100.9 billion were backed by single family mortgages and $4.6 billion were backed by multifamily construction and project loans. The single-family MBS included $3.2 million backed by manufactured housing loans.

The new securitization increased the volume of outstanding single-family MBS securities to $603.5 billion by the end of FY 2000, an increase of $33.9 billion, or 6 percent, from the end of FY 1999.

Ginnie Mae Single-Family Mortgage-Backed Securities Outstanding as of September 30th



Targeted Lending Initiative. Ginnie Mae implemented its Targeted Lending Initiative in 1996 to help raise homeownership levels in central city areas. The program provides financial incentives for lenders to increase loan volumes in traditionally underserved areas.

The Initiative was expanded in 1999 to include Indian lands, new Urban Empowerment Zones, and new Urban Enterprise Communities. The Initiative now includes Rural Empowerment Zones and Rural Enterprise Communities as well, supporting more competitive mortgage interest rates for properties in these areas. Under the Initiative, Ginnie Mae reduces its guaranty fee as much as 50 percent when approved issuers originate (or purchase) eligible home mortgage loans in designated communities and place them in Ginnie Mae pools.

By increasing lender activity in these targeted areas, Ginnie Mae provides underserved families and households with increased opportunities to achieve homeownership. In four years of operation (October 1, 1996- September 30, 2000), the Targeted Lending Initiative has issued $15.5 billion in securities, representing 163,155 loans in 7,758 pools. During FY 2000, $3.4 billion in targeted lending pools were issued.

Government-Sponsored Enterprises

Fannie Mae and Freddie Mac, the two Government Sponsored Enterprises (GSEs) that HUD regulates, help ensure that capital for mortgage lending flows freely by establishing a secondary market for securitized mortgages. HUD's regulations and performance goals for the GSEs establish standards for the share of mortgage purchases originated for low and moderate income households, defined for GSE purposes as those with incomes below the area median income. The most recent data available, reflecting calendar 1999, show that 45.9 percent of Fannie Mae mortgage purchases and 46.1 percent of Freddie Mac mortgage purchases were for families with low and moderate incomes (performance goal 1.1.g). These figures include mortgages for affordable multifamily developments.

Strategic Objective 1.2: Affordable rental housing is available for low-income households

For households unable to purchase homes or those preferring to rent, HUD is charged with increasing the availability of decent, safe and affordable rental housing. Over the past five decades, the physical quality of rental housing has improved greatly, but housing has become less affordable overall, particularly for poor households. During the 1990s, growing numbers of low-income renters were paying more than 30 percent—in many cases more than 50 percent—of their income for housing expenses.

The latest available American Housing Survey data show that during the 1998-1999 period the Nation and HUD made substantial progress in reducing the severest rental housing burdens, or "worst case needs" for housing assistance. The number of unassisted very-low-income renter households with worst case needs declined from an all-time high of 5.38 million in 1997 to 4.86 million in 1999. Most of these families paid more than half of their already very-low income for housing. This substantial progress reflects a 12 percent decline in worst case needs among elderly households, to 1.03 million, and a 10 percent decline among families with children, to 1.79 million (performance goal 1.2.1).

However, in certain respects, the affordable housing shortage has worsened. For extremely-low-income households,[2] the need for affordable rental housing has actually increased. In 1999, only 75 affordable units were available for every 100 extremely-low-income renters, down from 77 units per 100 renters in 1997 (performance goal 1.2.5). In addition, the number of affordable units that were actually available to very-low-income renters decreased from 72 per 100 renters in 1997 to 68 per 100 renters in 1999 (performance goal 1.2.6). The primary cause of these decreases is the continued loss of affordable housing stock; the existing housing that becomes obsolete is exceeding the new housing stock that becomes available.

[2] *Extremely-low income is defined as household income less than 30 percent of area median income, and very-low income is less than 50 percent of area median income.*

The supply of HUD-assisted rental housing continues to be insufficient to meet all of the affordable housing needs of extremely-low-income renters, as the ratio between those who report any form of housing assistance and those with worst-case housing needs (or housing assistance) was only 44.7 percent in 1999 (performance goal (1.2.a).

Overview of HUD Rental Assistance

HUD's three basic rental assistance programs—public housing, project-based assisted housing (including that for the elderly and disabled under Sections 202 and 811), and Section 8 tenant-based vouchers—provide the most direct means of ensuring affordable rental housing. Under these subsidies, assisted households typically pay 30 percent of income for housing. An additional number of low-income households are helped by the rental assistance component of the Housing Opportunities for Persons With AIDS (HOPWA) program and the tenant-based rental assistance component of the HOME program, under which assisted households also pay 30 percent of their income for housing.

A variety of programs, including HOME, HOPWA and the Low-income Housing Tax Credit (LIHTC, regulated by the U.S. Department of Treasury), provide subsidies that lower the costs of producing new rental housing or rehabilitating existing housing. Finally, the Rural Housing and Economic Development program provides grants for a variety of housing activities, with a focus on the severe needs in reservations, colonias, small towns and other places left behind.

NAHASDA. Native Americans on reservations have long suffered from a shortage of adequate housing. The Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) provided Indian tribes with the opportunity to assess their tribe's housing needs and develop programs that are responsive to those needs. HUD provides block grants to Tribes and Tribally Designated Housing Entities (TDHEs) to conduct affordable housing and community development activities. Factors such as low incomes, lack of financial literacy, remote locations, lack of infrastructure and lack of access to capital prevent a significant number of Native American families from becoming homeowners, so tribes may elect to develop rental programs with NAHASDA funds.

Section 8 Rental Assistance

The Housing Certificate Fund assists low and very-low income families in obtaining decent and safe housing at rents they can afford. HUD classifies Section 8 programs as either tenant-based or project based.

The tenant-based program provides families with vouchers that they can use to rent housing in the private market. Families with vouchers pay approximately 30 percent of their income for housing, with the government paying the balance up to a locally-determined maximum. Because this assistance is portable, families can use it to find housing in communities where poverty rates are lower and that are closer to educational and economic opportunities. HUD provides rental vouchers through local public housing agencies that administer this program. The total number of units eligible for vouchers was approximately 1.837 million in FY 2000, up from 1.682 million in FY 1999 (see table and footnote).

The project-based program's objectives are to:

- encourage the construction and rehabilitation of rental units, by tying the subsidy directly to the unit constructed or rehabilitated;
- stabilize the cash flow of FHA-insured or HUD-held multifamily projects which are in financial difficulty;
- preserve the low-income use of certain multifamily projects.

Although HUD is not entering into any new contracts for construction or substantial rehabilitation activities, there is still a sizable number of existing contracts for these projects that require funding for amendments and renewals. HUD provides project-based rental assistance directly to multifamily project owners through a number of programs.

Section 8 Obligations. Obligations relating to HUD's Section 8 tenant-based and project-based programs totaled approximately $46.1 billion and $54.5 billion as of September 30, 2000 and 1999, respectively. For much of the life of the Section 8 program, HUD entered into multi-year contracts with housing agencies and project owners to provide rental subsidies over the term of these contracts. Many of these multi-year contracts have not yet expired. HUD presently renews tenant-based contracts for only a single year and any multi-year contract renewals for the project-based program are made subject to annual appropriations. These obligations consist of the subsidies to be paid by HUD applicable to the remaining terms of these contracts.

The Department funds a significant portion of these Section 8 obligations through permanent indefinite appropriations ($28.6 billion and $38.9 billion as of September 30, 2000 and 1999, respectively). These obligations relate to future amounts due under subsidy contracts entered into prior to FY 1988 (primarily relating to the Section 8 and Section 235/236 programs) which operated under contract authority. Contract authority enabled the Department to enter into multi-year contracts with an annual draw against permanent indefinite appropriations to fund amounts due under these contracts.

Utilization of Section 8 Vouchers. With high levels of worst case housing needs and limited budgetary resources, it is essential that budget resources be used efficiently to provide families with affordable housing. In the past several years, the Department and Congress have taken a number of steps to improve Section 8 utilization rates. These include: merger of the certificate and voucher programs, reforms to make the voucher program more attractive to landlords, expanded flexibility for PHAs to raise voucher payment standards to respond to changes and variations in local market conditions, a new Fair Market Rent policy that allows housing agencies experiencing low voucher success rates to base payment standards on the 50th rather than the 40th percentile of rents, and authorization to allow housing vouchers to be used for homeownership. As agreed in a negotiated rulemaking with relevant stakeholders, HUD has also recently instituted a process that will provide for the reallocation of unused vouchers from PHAs that fail to achieve an adequate utilization rate. However, the full implementation and impact of such reallocations is not anticipated to be experienced until FY 2002.

HUD's performance goal 1.2.c on the "lease-up" rate was established to aid program managers, the Congress and other stakeholders in assessing the success of the above improvement efforts and the need for further action. The indicator shows the share of Section 8 units budgeted by housing agencies that are actually used to "lease-up" a unit.[3] An analysis of PHA year-end statements conducted in February 2001 indicates that, while housing authorities are utilizing approximately 92 percent of the certificate and voucher units under contract for a year or more, only 55.7 percent of the Section 8 tenant-based program is managed by PHAs that meet the 95 percent threshold for acceptable lease-up.[4] HUD continues to believe that this lease-up rate is unacceptably low and in need of further management attention to better assure HUD's budgetary resources are used in a timely fashion to alleviate the shortage of affordable housing.

Determination of Excess Rental Subsidies. Because the amount of rental subsidies paid on behalf of a tenant is based on that tenant's income, failure of a tenant to report all income to the program administrator and failure of the program administrator to properly determine and certify tenants results in the Department paying excess rental subsidies. This issue applies to the Department's Section 8 and Public Housing programs.

HUD conducted two major efforts during FY 2000 to assess the accuracy of rent determinations. The

[3] "Substandard lease-up" by a housing agency is defined with a two-pronged test: both the "lease-up rate" and "budget authority utilization rate" are below 95 percent.

[4] Approximately two-thirds of the fiscal statements analyzed for purposes of these calculations were from PHAs with fiscal years ending in FY 2000, while one-third are from PHAs with fiscal years ending in FY 1999.

Department developed statistical estimates of the extent of housing rental subsidy overpayments attributed to unreported tenant income, based on a computer matching effort with Social Security Administration (SSA) and Internal Revenue Service (IRS) databases. In addition, a separate quality control review of subsidy program rent determinations was conducted to evaluate the nature and significance of other types of rental subsidy payment errors attributable to the performance of public housing agencies, owners and agents responsible for program administration.

Based on the results of the computer matching study, the Department projects, with 95 percent confidence, that the amount of subsidy overpayments for the 4.32 million households receiving assistance during calendar year 1999 was \$617 million ±\$101 million. This estimate of excess rental subsidies represents approximately 3.27 percent of the total rental subsidies paid by HUD in FY 2000. However, the phrase "excessive rental subsidies" does not necessarily equate to budgetary reductions that could be achieved by eliminating the excessive rental assistance, because HUD's budgetary needs are affected by many variables not recognized in the above estimate.

The interim report on "Quality Control for Rental Assistance Subsidies Determinations" for public housing and Section 8 programs presented findings that 60 percent of the rent calculations had some type of administrative or calculation component error that contributed to a subsidy overpayment or underpayment exceeding a \$5 threshold. The study projected, with 95 percent confidence, annual subsidy overpayments of \$1.939 billion ±\$188 million, and annual subsidy underpayments of \$685 million ±\$126 million, because of errors attributable to program administration by public housing agencies, owners and agents. This resulted in a net overall gross payment error estimate of \$1.254 billion, which represents approximately 6.6 percent of the rental subsidies paid by HUD in FY 2000. The interim report on this study is still subject to review and comment by HUD program officials, and has not been subjected to independent verification and validation. Additional information on both studies is presented in Note 17 to the financial statements. Additional information on the Department's efforts to ensure that tenants report the correct income is presented on page 41, "Tenant Income Verification."

Operating Subsidies, Grants and Loans to Housing Agencies

There are an estimated 4,535 housing agencies (HAs) of various types across the nation that manage HUD rental assistance programs (i.e. Section 8 and Public and Indian Housing Programs). These HAs are primarily composed of Public Housing Agencies (PHAs) and Tribally Designated Housing Entities (TDHEs). About 3,160 PHAs manage approximately 1.3 million public housing units that are homes for some 2.58 million persons. (Many of these PHAs also administer Section 8 programs.) Another 1,020 HAs manage Section 8 programs but no public housing. In addition, approximately 355 TDHEs manage an estimated 70,000 to 80,000 housing units. (Under the Native American Housing Assistance and Self Determination Act, TDHEs are not required to report to HUD.)

The Department provides funding to PHAs to support public housing through the following accounts:

- **The Operating Fund** provides operating subsidies directly to PHAs, based on a formula, to help them to meet their operating and management expenses. These subsidies are required to bridge the gap between operating expenses and income.

- **The Capital Fund** provides funding, based on a formula, to PHAs to carry out capital and management improvement activities. PHAs use this funding to modernize and rehabilitate existing units, demolish obsolete units, relocate tenants, acquire or develop new units, implement management improvements, and support homeownership programs.

Units of Housing Assistance Available Under HUD's Major Programs

	1997	1998	1999	2000
Section 8 Low Income Rental Assistance Program:				
Tenant-based Assistance	1,460,899	1,605,898	1,681,774*	1,837,428
Project-based Assistance	1,482,735	1,395,037	1,386,533*	1,358,797
Total Section 8	2,943,634	3,000,935	3,068,307*	3,196,225
Public Housing Program	1,372,260	1,295,437	1,273,500	1,266,980
Sub-total	4,315,894	4,296,372	4,341,807*	4,463,205
Other Assistance Programs				
Homeownership Assistance Program (Section 235)	60,810	52,713	43,116	26,477
Rental Housing Assistance Program (Section 236)	494,121	476,451	464,020	446,300
Rent Supplement	20,860	20,860	20,860	20,261
Sub-total	575,791	550,024	527,996	493,038
Less estimated number of households receiving more than one form of assistance (double count)	(190,140)	(190,140)	(190,140)	(190,140)
Total, Public and Assisted Housing	4,701,545	4,656,256	4,679,663*	4,766,103
CDBG Households Assisted	202,100	157,417	(est.) 158,300	(est.) 182,700
HOME Tenant-Based Assistance	7,792	8,246	(est.) 8,246	(est.) 6,899
HOME Rental Units Committed	23,041	24,148	(est.) 25,114	(est.) 33,487
HOME New Homebuyers Committed	28,403	29,514	(est.) 30,695	(est.) 30,748
HOME Existing Homeowners Committed	13,053	13,415	(est.) 13,952	(est.) 14,731
HOME Total Households	72,289	75,323	(est.) 78,007	(est.) 85,865
HOPWA Households	35,845	43,798	(est.) 41,670	(est.) 43,902
Total of CDBG, HOME and HOPWA	310,234	276,538	(est.) 277,977	(est.) 312,467

** These numbers differ from those reported in the FY 1999 Accountability Report because of a prior period adjustment to Tenant-based Assistance units and to Moderate Rehabilitation units in the Project-based Assistance number.*

HOPE VI Neighborhood Investment Partnerships

The HOPE VI Program revitalizes severely distressed public housing developments and their neighborhoods using the strategies of public-private partnerships and mixed-income housing. Public housing agencies can use HOPE VI grants for a broad range of activities: capital costs of major rehabilitation, new construction and other physical improvements; management improvements; planning and technical assistance; self-sufficiency programs for residents; and demolition of severely distressed public housing. Through HOPE VI, HUD has renewed efforts to rid neighborhoods of obsolete or distressed housing units and replace demolished units with lower-density housing. HUD also is providing tenants of these units with rental vouchers that allow them to obtain affordable private sector housing.

HOPE VI Results. During FY 2000, the HOPE VI Program awarded 18 revitalization grants totaling $513.8 million. These grants will allow housing agencies to demolish 8,139 severely distressed and obsolete units, rehabilitate 48 units and create 4,104 new rental units and 969 units of housing for homeowners. This compares with 21 grants in FY 1999, totaling $571.3 million, and enabling the demolition of 9,134 units, rehabilitation of 408 units and construction of 3,720 new rental units and 1,359 units of owner-occupied housing.

FHA Multifamily Housing Programs

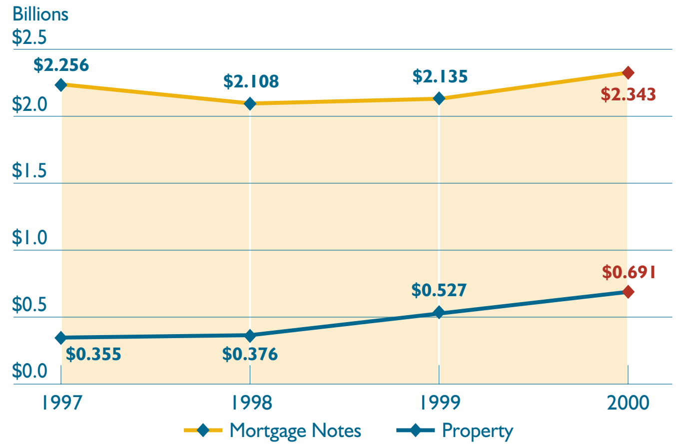
FHA's Office of Multifamily Housing continued to provide financing support for rental housing and health care facilities by insuring loans and risk-sharing mortgages. In FY 2000, FHA endorsed multifamily loans totaling approximately $3.7 billion. The 15,200 mortgages currently held in the portfolio have an unpaid principal balance of nearly $54 billion.

FHA's largest multifamily programs in terms of insurance-in-force are Sections 221(d)(4), 223(f), and 221(d)(3). FHA completed initial endorsements of 574 multifamily loans in FY 2000, exceeding the goal of 424 loans, but down slightly from the 663 endorsements in FY 1999 (performance goal 1.2.L).

Multifamily Housing also contributed substantially to the supply of affordable housing for special needs populations—the elderly and persons with disabilities. In FY 2000, 278 projects were brought to initial closing under the Section 202 and Section 811 programs, compared with 270 in FY 1999 (performance goal 1.2.g). Capital advances for these developments will help provide housing to thousands of elderly persons and persons with disabilities.

Secretary-Held Multifamily Mortgage Notes and Property. A note is assigned to the Secretary when FHA pays a claim prior to foreclosure and takes possession of the mortgage note for servicing. Mortgage notes in default were assigned to FHA for servicing until 1996, when the program was terminated because of the high cost of servicing assigned notes. However, in FY 1999, notes were assigned to HUD that were held by borrowers who applied for the program before April 1996.

Multifamily Mortgage Notes and Multifamily Property Held by the Secretary as of September 30th



Preserving Affordable Housing Assistance

In recent years, strong local markets have increased rents in some areas, leading a number of owners of multifamily properties to prepay their assisted mortgages and/or decline to renew their Section 8 project-based assistance contracts when they expire (i.e., to "opt-out" of the program). This market pressure has caused a decline in the number of households helped with project-based assistance. To prevent tenants from being displaced when owners prepay or opt-out, HUD provides enhanced vouchers on a "one-for-one replacement basis" that allow eligible tenants to remain in these properties or move to affordable housing elsewhere. Any vouchers that are not used by current tenants remain in the locality so that the total number of assisted households in a community is not reduced by the prepayment or opt out.

Two programs are also in place to help preserve the project-based assisted housing stock, Mark-To-Market and Mark-Up-To-Market.

Mark-To-Market. Starting in 1998, HUD began implementing the "Mark-to-Market" program. Many Section 8 properties with HUD-insured mortgages have assisted rents that are much higher than comparable market rate rentals. Rather than renew these Section 8 contracts at above-market rents with above-market subsidies, HUD reduces rents to market levels and, where needed, reduces the existing mortgage debt to levels supportable at the lower rents. This effort is administered through the Office of Multifamily Housing Assistance Restructuring (OMHAR), a separate entity within HUD.

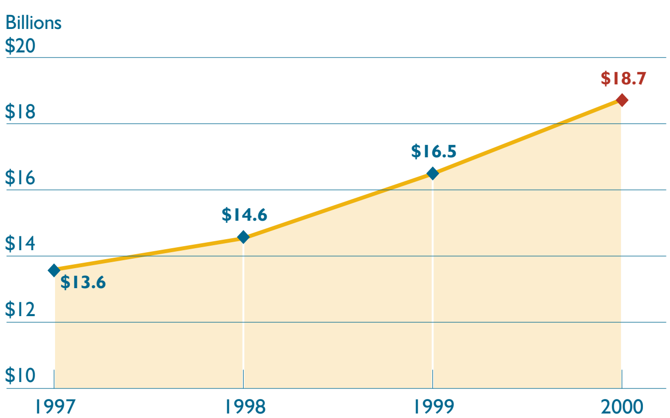
Mark-Up-To-Market. Beginning in 1999, HUD implemented a complementary preservation program called "Mark-Up-To-Market" for properties with below market rents. This targeted effort offers higher rents to owners with expiring Section 8 contracts if they renew their contracts rather than convert to market rate rentals. Because tenant payments in project-based Section 8 are fixed at 30 percent of income, tenants are not affected by the higher rents.

Ginnie Mae Multifamily Housing

During 2000, Ginnie Mae developed a new mortgage-backed security for FHA-insured multifamily mortgages that are originated in connection with the Mark-to-Market program. Beginning in FY 2001, the new MBS instrument will facilitate the flow of private capital to the Mark-to-Market program.

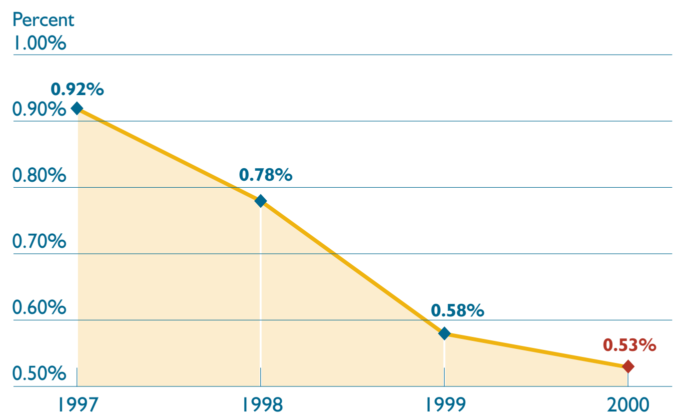
Ginnie Mae increased support of FHA multifamily mortgage insurance by securitizing 100 percent of the eligible FHA-insured multifamily mortgage volume in FY 2000, up from 98 percent in FY 1999 (performance goal 1.2.j). The total volume of Multifamily MBS outstanding has increased every year since FY 1996.

Ginnie Mae Multifamily Mortgage-Backed Securities Outstanding as of September 30th



Delinquency in repayment of multifamily mortgages has declined in recent years because of strong economic and rental market conditions. Serious delinquencies among multifamily mortgages are defined as loans delinquent two months or more plus foreclosures. As shown below, delinquency ratios for the MBS pooled mortgages in the multifamily housing programs continued their decline from 0.58 percent in FY 1999 to 0.53 percent in FY 2000.

Delinquency Ratio of Ginnie Mae's MBS Multifamily Portfolio



HOME Investment Partnerships Program

The HOME Investment Partnerships Program provides funds to State and local governments to address their affordable housing needs. HOME encourages public-private partnerships by providing incentives to for-profit and non-profit developers for production of housing for low-income households. Eligible activities include the acquisition of existing housing; reconstruction and rehabilitation of sub-standard housing; construction of new housing; assistance to new homebuyers; and tenant-based rental assistance. The HOME program assists low-income families, which are defined as those with an income at or below 80 percent of the area median, and helps ensure that rents are affordable in developments receiving a HOME capital subsidy by capping them at the lesser of the fair market rent or 30 percent of 65 percent of the area median income. At least 90 percent of families receiving HOME rental assistance must have incomes below 60 percent of area median income.

In FY 2000, outlays for the HOME program were $1.39 billion compared to $1.25 billion in FY 1999. Every dollar of HOME funds for FY 2000 leveraged an estimated $2.49 in other resources, up from $2.41 leveraged in 1999 and $2.00 in 1998. Other non-federal sources are included in leverage calculations. The increase in the leveraged amount from FY 1998 to 2000 is primarily due to a more accurate method of calculating this measure, which used completed units rather than committed units.

Homeownership and Rental Assistance. The HOME program provides assistance for both homeowners and renters. In FY 2000, HOME grantees reported commitments of 85,865 units and completed production of 76,609 units, adding to the 543,748 units committed and 343,072 units completed over the life of the program (performance goals 1.2.d and 1.2.e). Units completed includes 29,309 rental units produced, 34,126 new homebuyers assisted, and 13,174 existing homeowners assisted. In addition, 6,899 households received tenant-based rental assistance, adding to the 61,944 households that have received rental assistance since program inception.

Over the past four years, HOME grantees have increased annual commitments to produce rental and owner-occupied units and provide tenant-based rental assistance by approximately 19 percent—from 72,289 units in FY 1997 to 85,865 units in FY 2000. The increase in HOME commitments is explained by increased annual appropriations during the period and by increased capacity of participating jurisdictions and sub-recipients to use these appropriations. Reflecting the Department's increased emphasis on expanding affordable homeownership, the owner-occupied component of these HOME commitments increased by 10 percent, from 41,456 in FY 1997 to 45,479 in FY 2000.

Housing Opportunities for Persons With AIDS

The Housing Opportunities for Persons with AIDS (HOPWA) program provides housing assistance and related supportive services for low-income persons with HIV/AIDS and their families. Grants are provided by formula allocations to States and metropolitan areas with the largest number of cases and incidence of AIDS and also by competitive selection of projects proposed by State and local governments and nonprofit organizations. In FY 2000, 101 communities received $207.2 million in HOPWA formula allocations, and another $24.8 million was awarded competitively. With these funds, an estimated 43,902 units of short-term and permanent housing will be provided in connection with supportive services.

Government-Sponsored Enterprises

In 1999, Fannie Mae and Freddie Mac substantially exceeded their HUD-established "special affordable multifamily" goals for securitization volume (performance goal 1.2.i). Fannie Mae securitized $4.06 billion, while Freddie Mac did $2.26 billion of multifamily business.

Strategic Objective 1.3: America's housing is decent, safe, and disaster resistant

A long-standing objective of Federal housing policy is to assure decent housing. HUD helps improve housing quality by providing funding in the form of CDBG and HOME block grants, rehabilitation loans, capital grants and lead-paint abatement grants. The Department works with public housing agencies and private housing providers to ensure that assisted housing meets standards. HUD also regulates the manufactured housing industry and works with public and private partners to develop durable, efficient and affordable housing technology.

Housing quality has improved markedly over the past five decades. The most recent data from the American Housing Survey (AHS) show that the number of low-income households living in units with one of four hazardous conditions declined from 6.2 percent in 1997 to 5.8 percent in 1999 (performance goal 1.3.2).

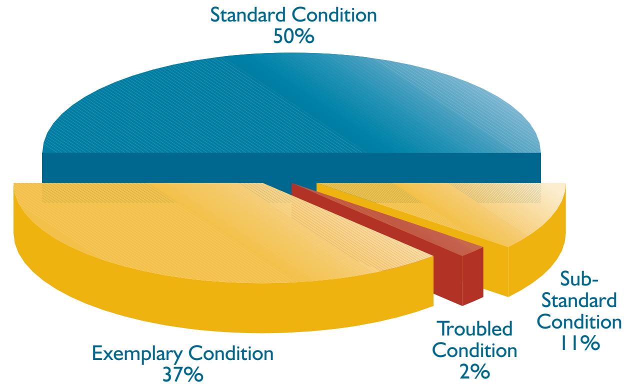
Housing in need of repair or rehabilitation remains a frequent problem among the lowest-income renters and owners, who frequently must settle for inadequate housing to find units they can afford. The most recent data from the AHS show that the share of very-low-income renters living in units with moderate or severe physical problems declined to 14.8 percent in 1999, down from 15.2 percent in 1997 (performance goal 1.3.1). However, the share of very-low-income homeowners with similar problems increased from 7.2 percent in 1997 to 8.1 percent in 1999, in part because a substantial number of households with very-low incomes were able to become owners of "fixer-upper" properties, but also because more families were classified as having very-low incomes as overall income growth shifted the income limits.

HUD-Supported Housing Quality

In September 1998, HUD published a uniform rule on physical condition standards and physical inspection requirements applicable to all HUD-supported multifamily (MF) housing and public housing stock. For the first time, HUD has baseline inspection information on the condition of the entire HUD-supported housing portfolio, and is using that information to improve living conditions for residents of that housing. Information and results from FY 2000 are provided in the following two sections.

Multifamily Insured and Assisted Housing. As of February 9, 2001, HUD's Real Estate Assessment Center completed the first-ever inspection of the MF housing portfolio of 28,038 insured and assisted projects, which represent 2,489,916 housing units. The baseline results were as follows:

MF Housing Inspection Baseline
28,038 Projects with 2,480,916 Units

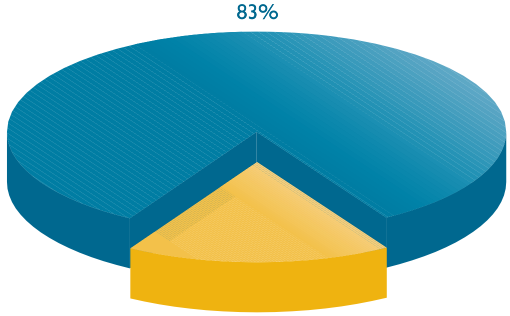


On a rating scale of 100 points, projects scoring above 60 are deemed to be in general compliance with HUD's physical condition standards. A total of 85 percent of the MF project baseline was found to be in general compliance with HUD standards (performance goal 1.3.3). 37 percent of the MF project baseline scored above 90, placing them in an "exemplary condition" status that only requires physical inspection every three years. The less than 2 percent of projects that fell in the "troubled condition" category were referred to HUD's Enforcement Center to better assure these more egregious conditions are appropriately addressed. For the other 11 percent of sub-standard performers, Office of Housing field staff follow-up to assure that Management Improvement Operating (MIO) Plans are negotiated and adhered to by project owners.

In addition, when "exigent" health and safety deficiencies are detected during HUD's on-site physical inspections citations are issued to project owners and agents requiring corrective action and response to HUD within three business days. During the baseline inspection of the 28,038 projects, 30,027 "exigent" health and safety deficiencies were reported for immediate corrective action at 9,623 projects.

Public Housing. While the physical condition standards and on-site physical inspection requirements are the same for both public housing and MF housing, there are differences in how the information is used and acted upon, due to differences in the statutory, regulatory and contractual relationships between HUD and its respective PHA and MF project owner partners. While inspections at PHAs are conducted and scored at the project level, the results of project inspections are aggregated at the PHA level and reported as one of four components of the PHAS rule scoring process. Nevertheless, individual PHA project inspection results indicate a PHA's compliance with HUD's physical condition standards. Inspection results in FY 2000 were as follows:

PHA Project Inspection Results
13,569 Projects with 1,204,778 Units at 3,142 PHAs



A total of 83 percent of the projects (representing 70 percent of the units) met HUD's physical conditions standards. A total of 2,320 projects (17% of the PHA projects inspected) failed to meet HUD's physical condition standards (projects scoring below 60 out of 100); those projects represented 30% of the 1.2 million housing units at the projects inspected last year. Many of the projects failing to meet HUD's physical condition standards are larger projects. In addition, the 13,569 PHA project inspections reported 24,575 "exigent" health and safety deficiencies at 6,406 projects. Office of Public and Indian Housing staff use physical inspection results to evaluate annual PHA plans to assure available resources are used to address problem projects and significant housing quality standards deficiencies. HUD looks for the number of housing quality deficiencies to decrease, and inspection scores to improve, when reporting on the next cycle of physical inspections.

HUD intends to complete the demolition of 100,000 distressed public housing units by the end of FY 2003. As of the end of FY 2000, the Department had approved 110,000 units for demolition, and 13,476 more units had been demolished, compared with 12,388 units in FY 1999 (performance goal 1.3.b; FY 2000 data reflect adjustments for late reporting by PHAs). Demolition activity continues to be delayed by the need for PHAs to relocate tenants and abate hazardous wastes before proceeding.

Lead Paint and Other Hazards. One of the most critical housing safety issues is the presence of lead-based paint in homes with small children. As of 1994, approximately 890,000 children under the age of 6 were estimated to have elevated blood lead levels. Older housing, which is more often occupied by lower income households, is the primary source of lead-based paint hazards. In FY 2000, HUD provided lead hazard grants that will over time make an estimated 7,969 units lead-safe, increasing the cumulative total to 27,992 (performance goal 1.3.5).

In recent years, the serious destruction caused by hurricanes, earthquakes, and other natural disasters also highlights the need for housing that is as resistant as possible to such stresses. Significant amounts of disaster assistance funds have been appropriated for this purpose. Through the Partnership for Advancing Technology in Housing, HUD coordinates federal agency and private industry efforts to encourage the development and widespread diffusion of new disaster-resistant technologies throughout the housing industry. HUD also works through the CDBG program to improve local building codes and through CDBG and related housing grant programs to reduce vulnerability to floods.

Trends and Factors Affecting Strategic Goal I

National and regional economic conditions, as well as the actions of many private and public players, exert a critical influence on increasing homeownership or achieving any of HUD's specific performance targets that measure progress toward that objective. For example, higher interest rates can reduce the number of first-time homebuyers, thus reducing the number of homes insured by FHA. Similarly, if the economy weakens and unemployment rises, fewer persons will apply for FHA loans, and FHA may experience a higher loan default rate. Conversely, *falling* interest rates might increase refinancing (as occurred from 1996 through 1998), thus reducing the *share* of new loans going to first-time buyers, even as their numbers rise.

Many external factors also affect the supply of affordable rental housing, including tax policy, local rental markets, building codes and land use regulations, State and local program decisions, and the actions of HUD's many other partners. Although rental vacancy rates nationally have been unusually high for at least five years, local rental markets vary in the availability of housing with rents below local fair market rents (FMRs), and many large metropolitan areas have severe shortages of units that would be affordable to extremely-low-income renters without Section 8 vouchers.

HUD's ability to provide access to affordable housing depends to a great extent on the state of the economy. Changes in unemployment rates, in the cost of developing and maintaining housing or in personal income—factors over which HUD has little control—all affect housing affordability. Because tenant-paid rents are established as a percent of income in HUD's rental assistance programs, lower incomes necessitate greater subsidies. With the number of renters with worst case needs far exceeding the number of deep subsidies available and with the pressure of welfare reform, the success of HUD's efforts in this area will be highly dependent on the ability of the economy to continue to generate jobs with decent wages.

A wide array of local factors, such as building codes and other regulations, affect the choices that builders make in constructing and rehabilitating American homes. While HUD can encourage local communities to improve and enforce building codes and regulations, and can encourage private builders and owners to improve their properties, the Department cannot mandate these changes. Increasing building density and other land use factors also have major impacts on the vulnerability to natural disasters and the magnitude of associated risk. Public awareness of hazards and of ways of reducing them is also important but often lacking.

Ensure Equal Opportunity in Housing for All Americans

In 1968, Congress passed landmark legislation to ensure the civil rights of Americans, including the right of equal opportunity in housing. This Civil Rights Act contained two provisions related to housing:

- Title VIII, the Fair Housing Act, prohibited discrimination in the sale, rental and financing of dwellings based on race, color, religion, sex or national origin. Amendments in 1988 protected familial status as well, and expanded protections for persons with disabilities by requiring accessibility features in new multifamily dwellings.

- Title VI banned discrimination on the basis of race, color or national origin in federally assisted programs, including all HUD programs except for mortgage insurance and loan guarantee programs. It provides for HUD's investigation and remediation of discrimination complaints.

HUD's strategic goal of ensuring equal opportunity in housing for all Americans has three objectives:[1]

- Housing discrimination is reduced.

- Low-income people are not isolated geographically in America.

- Disparities in homeownership rates among racial and ethnic groups are reduced.

From the beginning, HUD has led the fight for fair housing by administering the Fair Housing Act. All of HUD's organizations are involved in the fight for fair housing, and the Office of Fair Housing and Equal Opportunity (FHEO) has primary responsibility for investigating, conciliating and issuing determinations in cases involving discrimination.

These goals are carried out through several means:

- Reducing discrimination in housing through aggressive enforcement of civil rights and fair housing laws, the promotion of substantial equivalency among State and local governments enforcing fair housing laws, and the administration of grant programs;

- Promoting geographic mobility for minority and low-income households;

- Requiring communities to integrate fair housing planning into Consolidated Plans, identifying impediments to housing choice that affect results achieved with HUD formula grants;

- Ensuring that other Federal agency programs that affect housing choice also further the goals of the Fair Housing Act.

Strategic Objective 2.1: Housing discrimination is reduced

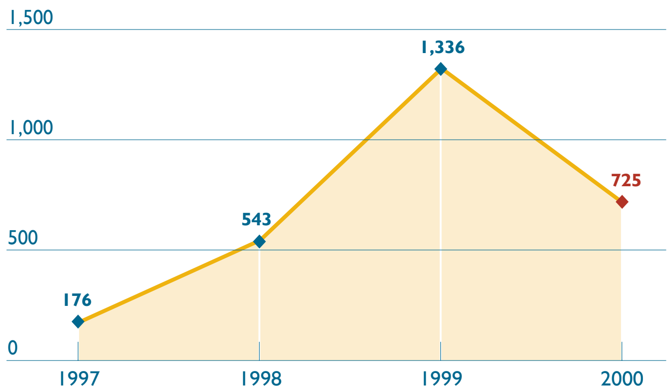
Fair Housing Enforcement Under Title VIII

Despite the long-standing protections of the Fair Housing Act, studies of the incidence of housing discrimination conducted in 1978 and 1989 showed that alarming levels of illegal discrimination persist. HUD is conducting major research to study the current extent of the problem and expects to release findings about national and metro-area housing discrimination rates during 2001. The Department also is studying the extent of public knowledge of fair housing law to shed light on the factors that contribute to discrimination.

[1] *The FY 2000-2006 Strategic Plan restructured the Strategic Objectives under Goal 2 to read as follows: 2.1, Housing discrimination is reduced; 2.2, Minorities and low-income people are not isolated geographically in America; and 2.3, Disparities in homeownership rates are reduced among groups defined by race, ethnicity and disability status. The revised framework will be used beginning in FY 2001.*

Enforcement Efforts. FHEO was challenged to double enforcement actions against housing discrimination to 2,170 over the four years of 1997-2000 compared with 1993-1996. FHEO met this challenge by completing 725 actions during FY 2000, for a total of 2,780 enforcement actions, or 128 percent of the goal (performance goal 1.2.a).

Fair Housing Enforcement Actions as of September 30th



State and local government agencies become HUD partners when they enforce fair housing laws that are certified as substantially equivalent to Title VIII. The results of enforcement efforts by both HUD and these fair housing enforcement agencies are illustrated by the number of discrimination cases received and closed. During FY 2000, 11,135 cases were received, compared with 11,111 cases in FY 1999. Since FY 1996, the number of "cases received" has reflected a new category of "claims." A claim is a discrimination inquiry that raises issues of discrimination, but may not satisfy the statutory threshold to become a complaint under HUD jurisdiction when fully developed.

Cases Closed. During FY 2000, FHEO and fair housing enforcement agencies closed 10,589 cases, an increase from 10,150 cases closed in FY 1999 and 9,411 closed in FY 1998. Closures of fair housing cases include administrative closures, conciliation/settlements and no-cause determinations, as well as cause determinations (investigative completions) and transfers of complaints to the Department of Justice (DOJ). (Certain categories of complaints, specifically those related to zoning and those involving criminal activity are statutorily required to be transferred to DOJ.) Some closures involve cases pending from previous years. During FY 2000, 37 percent of complaint closures were by consensual resolution, compared with 38 percent in FY 1999 and 39 percent in FY 1998.

During the past three years, more cases were received than were closed, even though FHEO and fair housing partners increased the rate of closure to 95 percent of cases received in FY 2000, compared with 91 percent in FY 1999 and 90 percent in FY 1998. The percentage of closed cases that had been open longer than 100 days rose slightly, from 79.4 percent in FY 1999 to 82 percent in FY 2000.

Fair Housing Grants

In addition to its own enforcement activities, HUD has two main grant programs that fund fair housing enforcement and education activities: the Fair Housing Initiatives Program (FHIP) and the Fair Housing Assistance Program (FHAP). FHIP helps meet the objectives of the Fair Housing Act by providing funding to public and private entities formulating or carrying out programs to prevent or eliminate discriminatory housing practices. FHAP helps fund enforcement activities by fair housing enforcement agencies that administer substantially equivalent laws. FHAP assistance funds complaint processing, training, technical assistance, data and information systems, and joint activities to increase fair housing enforcement.

In FY 2000, 36 organizations were awarded two-year Private Enforcement Initiative grants under FHIP to support private fair housing enforcement organizations efforts in the investigations of alleged violations of the Fair Housing Act and substantially equivalent State and local fair housing laws. This represents an increase of nine awards over FY 1999. Two grants were awarded to fair housing enforcement organizations to provide comprehensive services in underserved communities, such as ethnic and language minorities, recently arrived immigrants, migrant and seasonal farm workers and rural populations.

In FY 2000, the number of agencies that are certified as enforcing substantially equivalent fair housing laws and eligible for funding by the Fair Housing Assistance Program was increased by four, from 85 to 89 (performance goal 2.1.c). The increase represents progress in the Department's effort to build coordinated intergovernmental enforcement of fair housing laws and to allow States and localities to assume greater responsibility for administering fair housing laws.

Accessibility Provisions of the Fair Housing Act

Amendments to the Fair Housing Act have expanded protections for persons with disabilities by requiring that certain multifamily dwellings first occupied after March 13, 1991 must be accessible. Nevertheless, Multifamily dwellings are being constructed across the nation in violation of the design and construction requirements of the Fair Housing Act. A significant effort is needed to educate the building industry—including architects, builders and owners—as well as State and local governments and others about accessibility requirements in order to improve compliance with the Fair Housing Act. In FY 2001, a $1.0 million contract is proposed to carry out the training and technical assistance program for this purpose.

Fair Housing Enforcement Under Title VI and Other Law

Compliance Reviews and Voluntary Compliance Agreements. Title VI and Section 504 of the Rehabilitation Act of 1973 require that HUD conduct compliance reviews of grant recipients. When grantees are found to be in non-compliance with the relevant laws, HUD must take appropriate action to obtain compliance by securing a voluntary compliance agreement. If the recipient fails to comply by voluntary means, then HUD may suspend or terminate funds and/or refer the recipient to the Department of Justice for enforcement.

FHEO executed 10 Voluntary Compliance Agreements (VCAs) under the above statutes for FY 2000, down from 67 VCAs in both FY 1999 and FY 1998. The decline in VCAs in FY 2000 is in part explained by the Department's diversion of staff resources to address demand items and other higher priorities.

FHEO conducted 43 compliance reviews in FY 2000 under Title VI of the Civil Rights Act of l964, Title II of the Americans with Disabilities Act of 1990, Section 504 of the Rehabilitation Act of l973 and Section 109 of the Housing and Community Development Act of 1974. The FY 2000 accomplishments represented an increase from the 35 reviews that FHEO conducted in FY 1999 and FY 1998. Focused compliance reviews increase awareness and understanding of the above laws, thus increasing the probability and quality of compliance.

Complaints Investigated. FHEO investigated 740 complaints under the above statutes in FY 2000, a 72 percent increase over the 431 complaints investigated in FY 1999 and FY 1998. FHEO continues to work with recipients of HUD funds to ensure compliance with the civil rights laws.

Architectural Barriers Act complaints. FHEO processed two Architectural Barriers Act (ABA) complaints in FY 2000, the same number as in FY 1999. The number of complaints that HUD processes under ABA is driven by the number of complaints the Architectural and Transportation Barriers Compliance Board (ATBCB) refers for processing. HUD resolves non-compliance findings under the ABA when they are concurrently processed under Section 504 through Voluntary Compliance Agreements.

Strategic Objective 2.2: Low-income people are not isolated geographically in America

The isolation of America's minorities and poor families in distressed neighborhoods has increased in recent decades. When neighborhoods lose the amenities and conditions that sustain mixed-income and integrated communities, middle-income families may leave to protect their own interests and businesses have difficulty becoming reestablished. Neighborhoods with extreme poverty concentrations have difficulty meeting the needs of children and can have harmful influences on children who grow up there.

Revitalization. HUD helps revitalize distressed neighborhoods into mixed-income communities by helping to make them attractive to families with diverse economic circumstances and to create employment opportunities for the unemployed. The Community Development Block Grant and HOME Investment Partnerships programs allow communities to identify the needs of low- and moderate-income families and use funds flexibly to meet those needs.

Public housing has been both a cause and a victim of concentrated poverty and concentrations of minorities in American cities. A 1994 assessment of the location and racial composition of public housing showed that minority residents typically were segregated in predominantly-minority and high-poverty neighborhoods. HUD is reversing decades of ill-conceived policy and practice by redeveloping distressed public housing and neighborhoods into mixed-income communities through the HOPE VI program.

Poverty Deconcentration in Public Housing. Following findings of discriminatory admissions patterns by PHAs, HUD increased Title VI enforcement. HUD also has taken steps to promote income diversity in general-occupancy public housing developments. In 2000, the Department published a proposed rule under the Quality Housing and Work Responsibility Act for deconcentrating public housing buildings and developments. This rule seeks to reduce concentrations of the poorest families in particular housing developments.

Deconcentration with Tenant-based Section 8. One of HUD's best tools for dispersing concentrations of poverty and promoting integration is to encourage households assisted with the tenant-based Section 8 program, especially families with children, to use their vouchers to move to neighborhoods outside areas of concentrated poverty. The initial findings of an ongoing study of the Moving To Opportunity for Fair Housing Demonstration (MTO) indicate that helping families move from highly concentrated areas of poverty with Section 8 vouchers leads to wider opportunities, especially for the families with children.

The potential of tenant-based assistance for deconcentrating poverty is clear but has not yet been sufficiently realized. In FY 2000, the share of tenant-based families with children who lived in low-poverty neighborhoods, defined as census tracts with poverty rates below 20 percent, declined to 59 percent from 60 percent in FY 1999 (performance goal 2.2.2). Slight variations in reporting patterns as well as evolving admissions policies may account for the one percentage point decline.

Strategic Objective 2.3: Disparities in homeownership rates among racial and ethnic groups are reduced

Homeownership in the United States has many corollary benefits such as asset accumulation, tax advantages, neighborhood stability and stronger school systems. Homeownership has even been linked to better outcomes for children in terms of school achievement, dropout rates and other dimensions.

Although different demographic groups may have different preferences for homeownership compared with rental housing, closing the gap in homeownership rates among these groups in many ways demonstrates that America is providing equal opportunity. The most recent AHS data show that in 1999, the homeownership rate of racial and ethnic minorities was 65.2 percent of the rate for non-Hispanic whites.

Fair Lending. One of HUD's primary means for increasing the homeownership rates of minorities is to ensure equal access to mortgage lending. The most recent data collected from lenders under the Home Mortgage Disclosure Act show that in 1999, minority applicants (excluding Asian-Americans, whose denial rates differ little from non-minorities) were denied mortgages at a rate 77.3 percent higher than the denial rate for non-minority applicants (performance goal 2.3.2). This rate is slightly higher than the difference of 72.5 percent in 1998, although the apparent change may not be statistically significant. A substantial portion of the difference in denial rates between minority and non-minority applicants can be explained by finance- and credit-related attributes of the applicants.

In addition to enforcing fair lending law through FHEO, HUD regulates the government-sponsored enterprises, Fannie Mae and Freddie Mac, and continually monitors their programs and practices to ensure consistency with fair lending requirements. Under the authority of the Federal Housing Enterprises Safety and Soundness Act, HUD seeks to ensure that the GSEs' underwriting guidelines, including their automated underwriting systems for determining creditworthiness, treat minorities and other protected classes fairly. These guidelines and systems have an enormous impact on the availability of credit for all mortgage applicants. HUD also has established geographic targets for GSE mortgage purchases in underserved areas, which include areas with above-average shares of minority households. In FY 1999, 26.8 percent of Fannie Mae mortgage purchases and 27.5 percent of Freddie Mac mortgage purchases were for properties in underserved neighborhoods (performance goal 4.2.b).

Targeted efforts. HUD aims to increase the share of FHA single-family mortgage endorsements that go to minority homebuyers. Along with comparable goals for first-time homebuyers and central-city homebuyers—both disproportionately minority groups—this focus ensures that minority homebuyers have access to the lower interest rates of FHA-insured mortgages. In FY 2000, 41.8 percent of FHA home-purchase mortgage endorsements were for minority homebuyers, compared with 37.7 percent in FY 1999 (performance goal 2.3.a).

Ginnie Mae's Targeted Lending Initiative has expanded to include Indian lands and new Empowerment Zones and Enterprise Communities in both urban and rural areas. The initiative supports more competitive mortgage interest rates for properties in these areas by reducing the guaranty fee for eligible home mortgage loans. By increasing lender activity in these targeted areas, Ginnie Mae provides underserved families and households, including many minority households, with increased opportunities to achieve homeownership.

Two programs, Indian Housing Block Grants and the Section 184 Indian Home Loan Guarantee program, likewise promote minority homeownership by serving Native American communities where severe housing shortages continue. A variety of other HUD programs that benefit urban or low- and moderate-income homeowners similarly contribute to increases in minority homeownership. These programs include HOME, CDBG, and Section 8 homeownership vouchers, as well as homeowner education efforts.

Trends and Factors Affecting Strategic Goal 2

Social, cultural and economic conditions influence the acceptance of minorities, persons with disabilities and other protected classes by American citizens and the housing patterns that result. Disparities in wealth and income levels among different groups contribute to differences in access to homeownership, affordable and accessible rental housing and economic opportunities.

HUD, with FHEO leadership, has established partnerships with—and depends upon—the Departments of Justice and State and local government partners to assist in the fight for fair housing. State legislation that is substantially equivalent to national fair housing law is critical to increase the Nation's capacity to enforce those laws. State regulation of finance, insurance and real estate also affects fair housing and homeownership within specific populations or neighborhoods.

Local policies, including land use controls and accessible building code enforcement, will continue to influence levels of discrimination, income isolation, and disparities in homeownership rates. The private sector likewise plays a central role in achieving fair housing outcomes. Businesses that adopt inclusive policies as central values go far to promote justice. Finally, some individuals continue to discriminate because they lack awareness of their fair housing responsibilities.

Strategic Goal 3: Promote Self-Sufficiency and Asset Development by Families and Individuals

Stable, affordable housing promotes the health of families and communities. It supports self-sufficiency, the educational achievement of children, and treatment and services for persons with disabilities. Increased self-sufficiency and asset development improve the housing security of families by providing adequate income and a financial cushion in times of emergency. The relationship between housing and self-sufficiency is the focal point of HUD's efforts under this goal.

In FY 2000, HUD had the following objectives[1] related to these outcomes:

- Homeless families and individuals become self-sufficient.
- Poor and disadvantaged families and individuals become self-sufficient and develop assets.

Strategic Objective 3.1: Homeless families and individuals become self-sufficient

The need for homeless assistance remains acute. An independent researcher from the Urban Institute estimated that during 1996, between 2.2 and 3.5 million persons experienced at least one episode of homelessness. Data from a December 1999 HUD report entitled *Homelessness: Programs and the People They Serve* demonstrate that most people who become homeless have suffered severe hardships—including physical and sexual abuse, childhood trauma, poverty, poor education, disability, and disease. When homeless persons get housing assistance and needed services—such as health care, substance abuse treatment, mental health services, education and job training—76 percent of those living in families and 60 percent of those living alone end their homeless status and move to an improved living situation.

Continuum of Care

HUD has a history of providing support to homeless individuals and families. More recently, the way communities respond to homelessness has been revolutionized by the Continuum of Care (CoC) approach. This strategy is used by communities nationwide to organize and coordinate delivery of housing and services to homeless persons as they move off the streets, into stable housing, and towards self-sufficiency.

The needs of homeless persons vary; some need extensive and ongoing supportive services while others need only affordable housing with minimal services. The CoC process encourages public and private organizations to work together to identify the unique needs in their communities, seek alternative resources, and determine their priorities for HUD funding. In 2000, communities representing 88 percent of the Nation's population have come together in this manner, up from 83 percent in 1999 (performance goal 3.1.a).

The ultimate objective of Homeless assistance is to help homeless families and individuals achieve permanent housing and an appropriate level of self-sufficiency. In 2000, through the CoC process, HUD funded 7,085 *new* permanent beds linked to supportive services (performance goal 3.1.d) in addition to the ones funded in previous years. These beds will provide stable long-term housing for homeless families and individuals.

The number of new beds is a result of demand by communities for new permanent housing assistance and a congressional directive that 30 percent of homeless funds be used for permanent housing projects. While HUD funded every eligible permanent housing project, the increase was slightly less than the 7,170 new beds funded in 1999 because there was significant demand for renewal funding

[1] In the FY 2000-2006 Strategic Plan, these objectives were revised as follows: Homeless families and individuals achieve housing stability; Poor and disadvantaged families and individuals become self-sufficient and develop assets; The elderly and persons with disabilities achieve maximum independence. The revised framework will be used beginning in FY 2001.

for existing permanent housing and less demand for development of new permanent housing.

Transitional housing with supportive services can be an important intermediary step between emergency shelter and permanent housing. In 2000, HUD funded 3,345 *new* transitional beds linked to supportive services (performance goal 3.1.c). The increase is smaller than the 8,049 funded in 1999 for two reasons. A significant number of renewals were funded in 2000. When renewal projects are included in the total, HUD funded over 39,000 transitional beds in 2000. Also, the requirement that 30 percent of assistance fund permanent housing necessitated that many new transitional beds not be awarded funding.

Through the CoC, HUD also funded many supportive services only projects, including job training and mental health and substance abuse counseling. HUD also provided $150 million outside of the CoC process for emergency shelters across the Nation.

One significant challenge in managing homeless assistance programs is the lack of detailed information about how people become homeless and what programs are most effective at helping them. To fill this need, HUD commissioned the December, 1999 study, titled "Homelessness: Programs and the People They Serve." This study describes the conditions homeless people face, including their circumstances prior to becoming homeless and the support systems they encounter.

HUD also is helping to develop the capacity of homeless providers to collect unduplicated client-level data. Analyzing details and trends affecting homeless people and programs will enable communities to target resources to the most effective methods of preventing and ending homelessness. During FY 2000, the Department reviewed and analyzed a variety of leading electronic client tracking systems to assist communities in selecting a homeless management information system to collect unduplicated client level data. In addition, data collection and analysis was completed on a study of over a dozen communities which have already implemented tracking systems and collected client information. The study, scheduled to be released in 2001, is based on unduplicated counts of homeless service users.

Strategic Objective 3.2: Poor and disadvantaged families become self-sufficient and develop assets

Increasing self-sufficiency requires a multidimensional strategy that helps people improve their skills, increases the supply of jobs, facilitates job searching, and provides supportive services.

HUD's role in welfare reform stems from the significant overlap of families served by welfare and those served by HUD's programs. In 1999, 31 percent of families with children in HUD's public and assisted housing programs also received Temporary Assistance for Needy Families (TANF). And in 1997, about one quarter of TANF recipients received housing assistance.

Public Housing

Over the past several years, HUD has been transforming public housing to reduce the geographic and economic isolation of low-income households. The HOPE VI program described under Objective 1.2 has rebuilt thousands of public housing units into mixed-income communities that are integrated with training and employment opportunities.

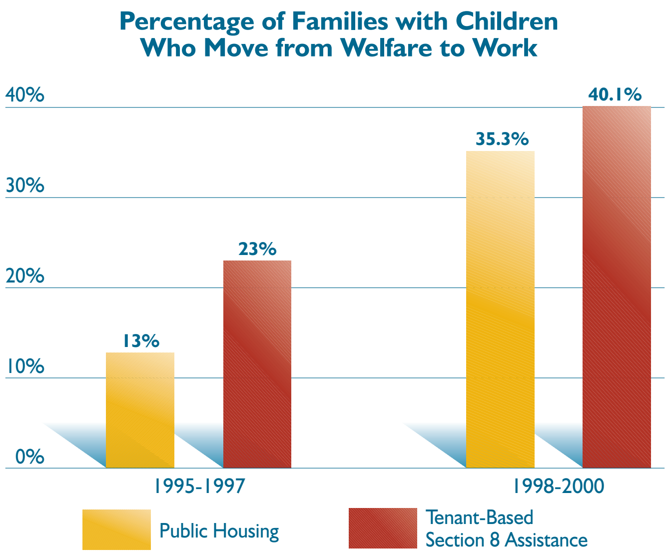
HUD also provides funding for microenterprise and small business development for public housing residents with an entrepreneurial spirit. In addition, Public Housing Authorities (PHAs) adjust their rent policies to reduce the financial disincentives to increasing a household's earnings. The escrow accounts established in the Family Self-Sufficiency (FSS) program also support asset development.

The results of these efforts, in combination with a strong economy and welfare reform, are notable. Between May 1998 and September 2000, 35.3 percent of families with children that lived in public housing moved from welfare to work (performance goal 3.2.4). By comparison, only 13 percent of such families moved from welfare to work while living in public housing between 1995 and 1997.

Tenant-Based Section 8 Assistance

Tenant-based assistance provides households with flexibility to live close to employment opportunities and social supports. Recipients of Section 8 assistance are also eligible for job training and employment services under the Family Self Sufficiency program.

For households receiving Section 8 assistance, the results of self-sufficiency programs were similar to those for public housing residents. From May 1998 to September 2000, 40.1 percent of families with children that received tenant based section 8 assistance moved from welfare to work (performance goal 3.2.5). This represents a significant increase over the 23 percent movement between 1995 and 1997.



These results reflect both the effects of the Nation's economy, and HUD's efforts to encourage and enable self-sufficiency among public and assisted housing residents.

Welfare to Work Vouchers

In FY 1999, Congress appropriated 50,000 Welfare to Work vouchers that require coordination between local housing authorities and welfare agencies. Because stable housing is so critical for steady employment, and because many jobs are located in suburbs while the people leaving welfare are in central cities, these vouchers are an important tool in promoting self-sufficiency.

Most of the local Welfare to Work (WtW) voucher programs were initiated January 1, 2000. After an initial period of slow issuance and lease-up, HUD stepped up technical assistance and oversight efforts. On June 26, 2000, only 26 percent of the vouchers had been issued and 9 percent leased, but by February 1, 2001, more than 92 percent of the 50,000 WtW vouchers had been issued and 65 percent were leased. The progress puts HUD on track to achieve full lease-up by the end of FY 2001. Many factors, such as the following, contributed to the slow lease-up rate of the WtW vouchers in the initial year of the program.

- The WtW voucher program required PHAs and welfare agencies to work together in new ways, and it took time for agencies to establish and refine procedures necessary for strong and effective partnerships.
- Most PHAs had not received new voucher funding in years and found that they had to take the time to hire and train new staff to handle lease-up effort.
- Many PHAs reported difficult housing market conditions, including low vacancy rates and high rents, which contributed to the slow lease-up rate.

Through individual monthly technical assistance calls, teleconferences on various aspects of program implementation, and site visits to the PHAs in greatest need of help, HUD has worked with the WtW PHAs to build PHA staff capacity, help them strengthen partnerships with service agencies and more effectively market the program to landlords. HUD has also taken steps to increase the Fair Market Rents/Payment Standards in high cost areas so that more units will be available to families, which will help families move closer to areas of job growth and deconcentrate poverty.

Community and Economic Development

Increasing self-sufficiency requires investments in job training, economic development, supportive services, and other infrastructure needs. HUD's Community Development Block Grants (CDBG) provide a mechanism for making these investments while recognizing the unique needs of every community. Furthermore, the Empowerment Zones program (EZ) targets flexible assistance to the most distressed communities. Among the many eligible uses of the CDBG and EZ program related to self-sufficiency are:

- Job Training, including the Youthbuild program
- Supportive services, including health care, transportation, and day care
- Education assistance
- Job Fairs

Another significant component of these programs is job creation, which is discussed further in Objective 4.1.

Trends and Factors Affecting Strategic Goal 3

Success in aiding the homeless to become self-sufficient is affected by a variety of factors beyond HUD's control and depends critically on the efforts of a wide variety of community partners. Participation levels by partners in the Continuum of Care effort—including State and local agencies, nonprofit organizations, service providers, housing developers, neighborhood groups, private foundations, the banking community, local businesses, and current and former homeless persons—will substantially determine the success of homeless families and individuals in becoming more self-sufficient. State and local governments also make critical decisions about zoning and the use of funds from programs such as CDBG, HOME, and tax-exempt bonds for rental housing, which may affect the local housing supply.

The incidence of homelessness is affected by macroeconomic forces such as unemployment levels, structural factors, including the supply of entry-level jobs, and the availability of low-cost housing. Personal factors such as domestic violence, substance abuse, disabilities, and the extent of a person's educational or job skills may also underlie homelessness.

A healthy economy with an increase of jobs in the service sector has made it easier for many low-skilled or inexperienced workers to enter the workforce in recent years. Should the economy slow, it may become more difficult to make this transition or to retain current employment. Opportunities for better paying jobs continue to be concentrated in technical fields for which many recipients of HUD assistance are not prepared. Jobs continue to grow faster in suburban areas, while families making the transition from welfare are more likely to live in inner-city or rural areas. Many of the educational, training, and service programs available to help families make the transition to self-sufficiency are operated by local recipients of Federal funds from agencies other than HUD, and these agencies traditionally have not made special efforts to serve residents of public and assisted housing.

Strategic Goal 4: Improve Community Quality of Life and Economic Vitality

In 2000, the unemployment rate was lower than it had been in 30 years. Employment rates increased for both women and minorities. But concentrations of poverty and joblessness continue to degrade the social and economic fabric of communities across the country. A key to reviving these markets is expanding access to private equity investment in business and industries that serve these communities. The Nation's economic challenges are not confined to the cities and suburbs in metropolitan areas. Many rural communities are struggling as well—especially in Appalachia, the Mississippi Delta, Indian country and the borderland colonias.

In FY 2000, HUD had the following objectives[1] related to these outcomes:

- The number, quality and accessibility of jobs increase in low-income urban and rural communities.
- Disparities in well-being among neighborhoods and within metropolitan areas are reduced.
- Communities are safe.

Doubly Burdened Cities

Cities that experience unemployment rates 50 percent above the national average accompanied by either a population loss of 5 percent since 1980 or poverty rates of 20 percent or higher are considered by HUD to be "Doubly Burdened." The combined effects of population loss, high unemployment, and high poverty drain a city's capacity to improve aging infrastructure and invest in new economic opportunities. In 2000, 67 cities, one in eight, were doubly burdened. This is a decrease from the one in seven cities that were doubly burdened in 1999. Further improvement requires a continuing and comprehensive investment in infrastructure, affordable homeownership and rental housing, and economic development.

Block Grant Assistance

The Community Development Block Grant (CDBG) is HUD's largest block grant program, and an important vehicle for improving the community quality of life and economic vitality. In FY 2000, States and cities expended $4.92 billion of CDBG funding, an increase of $70 million over the prior year. Grantees have discretion to use this funding for a variety of eligible purposes including economic development, housing construction and rehabilitation, and infrastructure improvements.

Grantees are required to use at least 70 percent of this funding to benefit low- and moderate-income persons. In FY 2000 they exceeded this threshold. Cities used 93.7 percent and States used 97.4 percent of funds to benefit low- and moderate-income households (performance goals 4.2.d & 4.2.e).

The Department also measures the percentage of direct beneficiaries that have low-incomes (below 50 percent of median) (indicator 4.2.f). Direct beneficiary activities include job creation and retention and the provision and rehabilitation of housing. In FY 2000 this level was 62.7 percent, an increase from the 1989 level of 56 percent.

In 1994, HUD implemented the Consolidated Planning Process to allow for the diverse needs of grantees and streamline access to four of HUD's block grant funding sources: CDBG, HOME Investment Partnerships, Housing Opportunities for People with AIDS (HOPWA) and Emergency Shelter Grants. Consolidated planning requires that every large city, urban county, and State develop a three to five year strategic plan, and annually produce action plans to describe how they will use funds in that year to meet their priorities. The planning process allows members of the community to be involved in allocating resources, and it provides HUD with a way to review grantees' funding decisions in the context of their needs.

[1] *The FY 2000-2006 Strategic Plan modified the Strategic Objectives under Goal 4 as follows: The number, quality and accessibility of jobs increase in urban and rural communities; Economic conditions in distressed communities improve; Communities become more livable. The revised framework will be used beginning in FY 2001.*

Strategic Objective 4.1: The number, quality and accessibility of jobs increase in low-income urban and rural communities

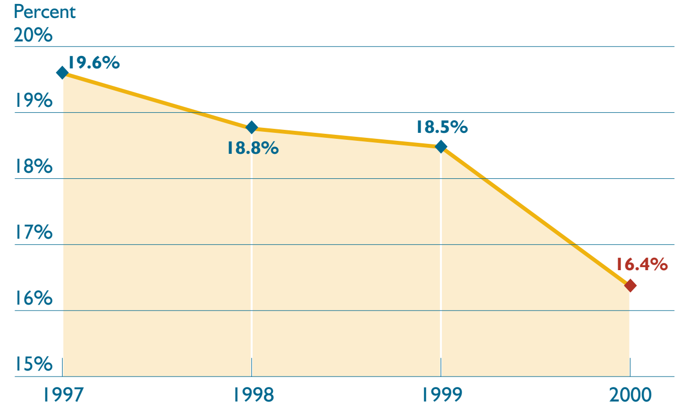
While the problems confronting struggling communities cannot be reduced to merely economic terms, increasing the number and quality of jobs plays a crucial part of any solution. Employment enables a working adult to better provide for his or her family, gain self-esteem, offer a positive role model for the next generation, purchase and maintain a home, invest in their community, and support local merchants. Moreover, strong, diverse, local economies are better able to handle the shocks and challenges of a changing global marketplace.

Communities use HUD funds for a variety of economic needs including:

- Physical development projects, such as roads, sewers, and other infrastructure that make the community more attractive to businesses for investment and job creation
- Loans and other financial assistance that go directly to businesses to create or retain jobs
- Education, job-training, and other services that support the workforce in low-income communities to make the area more attractive to prospective employers

Reducing poverty in central cities is one measure of HUD's progress towards improving the quality and accessibility of jobs because that is where HUD has historically invested a great deal of economic development resources. In 1999, the most recent year for which data are available, the central city poverty rate was 16.4 percent, a 2.1 percentage point decline from 1998. This compared favorably to the reduction in poverty in suburban areas, which declined by 0.4 percentage points.

Poverty Rates In Central Cities

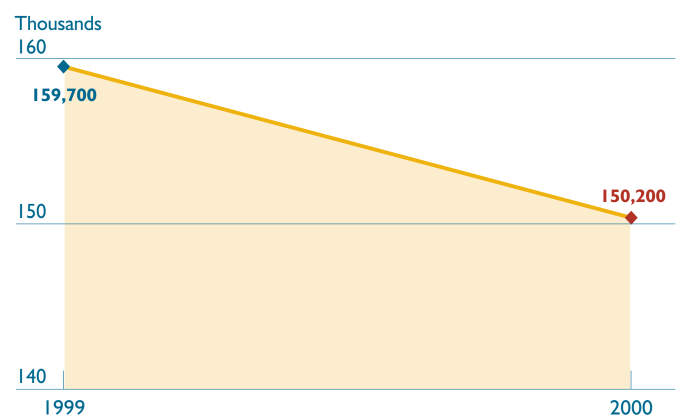


Due to the significant decrease in central city poverty, the ratio of central city to suburban poverty declined from 2.13 in 1998 to 1.98 in 1999 (performance goal 4.1.4).

Community Development Block Grants and Section 108 Loan Guarantees

HUD's primary investment tools for job creation are the Community Development Block Grants (CDBG) and the Section 108 Loan Guarantee program. CDBG provides flexible block grant funding to states and metropolitan areas to meet a variety of infrastructure, housing, and economic development needs. Section 108 provides guaranteed loans to communities for economic development activities. In FY 2000, these programs combined to produce 150,200 jobs (performance goal 4.1.e). This is a reduction from the FY 1999 level of 159,700 jobs.

Jobs Created through CDBG and Section 108



The level declined for a variety of reasons. Some communities have been reluctant to use the Section 108 program. And many communities do not want to use their CDBG funds as collateral, a requirement of the program. HUD has improved the marketing of Section 108 so that communities have a better idea of how it can be a safe, simple, and useful tool for economic development.

Another of the challenges of administering the CDBG program is managing the timeliness of expenditures by grantees. Timely expenditure is important to ensure that pressing needs are met as quickly as possible and to prevent the eroding effects of inflation. During FY 2000, the Department took several steps to promote timeliness including sending letters for non-compliance with regulations, holding conferences, measuring timeliness as part of internal business and operating plans, and conducting an under-utilization study to examine potential solutions. The results of these efforts are that the number of untimely grantees went down from 273 in FY 1999 to 185 in FY 2000 (performance goal 5.1.e).

Strategic Objective 4.2: Disparities in well being among neighborhoods and within metropolitan areas are reduced

Despite recent economic and social gains, many central cities and their residents remain disadvantaged. Higher levels of poverty and unemployment and decaying infrastructure induce middle class residents and businesses to leave struggling communities, which fuels further decline. While this scenario has traditionally involved inner-city neighborhoods, it is beginning to affect older inner-ring suburbs as well.

Residents are ultimately best able to determine the quality and well-being of their neighborhoods. Data from the 1999 American Housing Survey show that low- and moderate-income residents had an improved opinion of their neighborhood (performance goal 4.2.4). Among people living in cities, 70.2 percent had a good opinion of their neighborhood (between 7 and 10 on a 1-10 scale). This is a 3.9 percentage point increase from 1997. Meanwhile, 83.0 percent of suburban residents had a good opinion, a 1.9 percentage point increase. There was small decrease in the opinion of residents in non-metropolitan areas, 82.3 percent of whom had a good opinion compared to 83.2 percent in 1997.

Resident Opinion of Neighborhood

	1997	1999
Central City	66.3%	70.2%
Suburb	81.1%	83.0%
Nonmetropolitan Areas	83.2%	82.3%

There are many components that contributed to this improvement including:

- Improved housing conditions supported by the HOME investment partnerships, HOPE VI revitalization, public housing, and FHA programs
- Improved economic conditions supported by the CDBG, Section 108, and Empowerment Zones programs

Empowerment Zones/ Enterprise Communities

In 1994, 72 distressed urban communities across the country were designated as empowerment zones (EZs) or enterprise communities (EC). In 1999, an additional 15 urban EZs were designated. The purpose of the EZ/EC initiative is to combine seed grants for capacity building, workforce and business development, supportive services, and physical improvements with tax incentives to encourage partnerships between the residents, nonprofits, governments, and businesses in a community. The EZ/EC Initiative is focused on the creation of self-sustaining, long-term development in distressed areas. It is based on a holistic, participatory approach whereby community stakeholders partner together to develop and implement innovative and comprehensive strategic plans for revitalization. HUD measures the percentage of completed EZ/EC programs and projects for which locally defined goals in seven categories were achieved (performance goal 4.1.a). The seven categories are as follows:

Percentage of EZ/ECs Meeting Locally Defined Goals

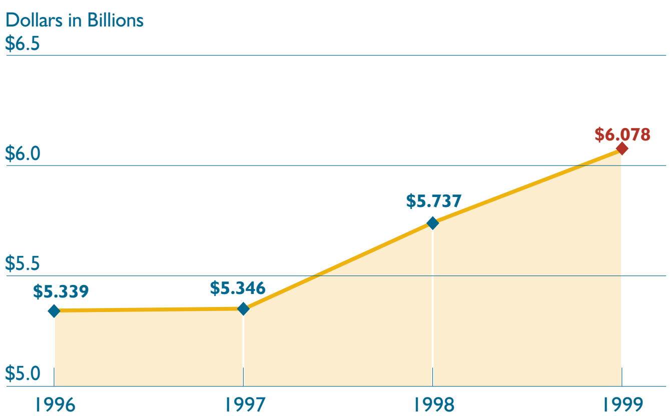
Category	1999	2000
Residents receiving homeownership assistance	79	81
New affordable housing completed	75	91
Rehabilitated affordable housing completed	70	88
Homeless residents served by homeless assistance programs	100	84
Residents served by social service programs	91	73
Residents find gainful employment	81	70
Residents served by public safety and crime prevention programs	94	91

The primary role of HUD's EZ/EC Initiative Office is to assist communities in the implementation of their plans. In that capacity, HUD staff work on a daily basis with EZ/EC directors, business persons, board members, citizens, non-profit organizations and others by providing program guidance and technical assistance.

Leveraging Private Capital

The future prospects for many distressed communities are contingent on the amount of capital being invested today. While HUD's programs provide direct investment, they are also a tool for leveraging other sources of public and private capital. In 1999, the latest year for which data are available, $6.078 billion of private capital were used to rehabilitate housing in underserved neighborhoods (performance goal 4.2.5). This was an increase of 5.9 percent ($341 million) over 1998.

Private Lending for Housing Rehabilitation In Underserved Neighborhoods

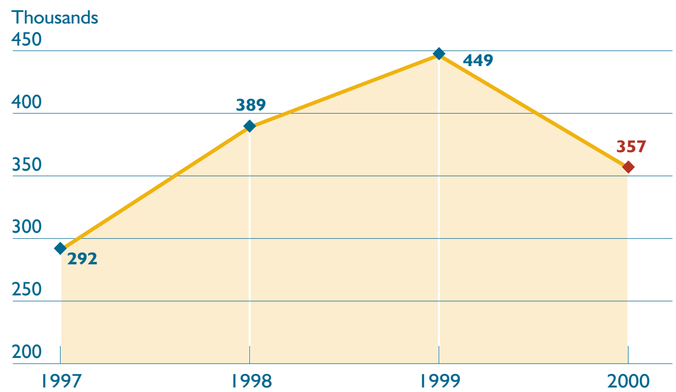


This trend demonstrates private lenders' increasing confidence in the viability of underserved neighborhoods.

FHA Lending

HUD also promotes investment by insuring loans for homeowners and multifamily housing developers. In FY 2000, FHA endorsed 357,059 mortgages in underserved areas, a reduction of approximately 92,000 mortgages from FY 1999 (performance goal 4.2.a).

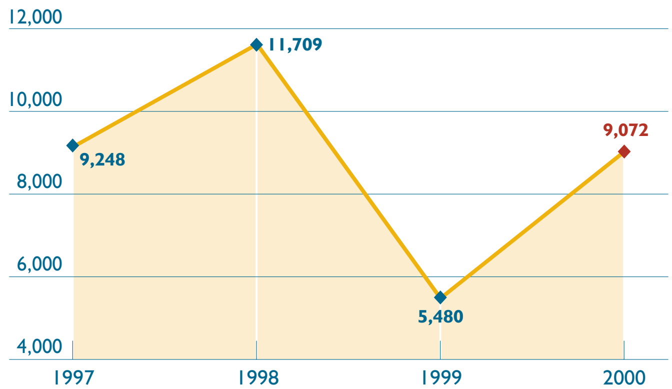
FHA Single Family Mortgage Endorsements In Underserved Areas



The decline is due mostly to changes in the real estate market that affected most FHA single family programs, including higher interest rates. However, as a share of all FHA single family endorsements, lending in underserved neighborhoods actually increased from 35 percent in FY 1999 to 38 percent in FY 2000.

FHA also insures loans to develop and rehabilitate multifamily properties in underserved neighborhoods. In FY 2000, 9,072 units were insured by a variety of FHA programs, an increase of 3,592 from FY 1999.

FHA Insured Rental Units In Underserved Neighborhoods

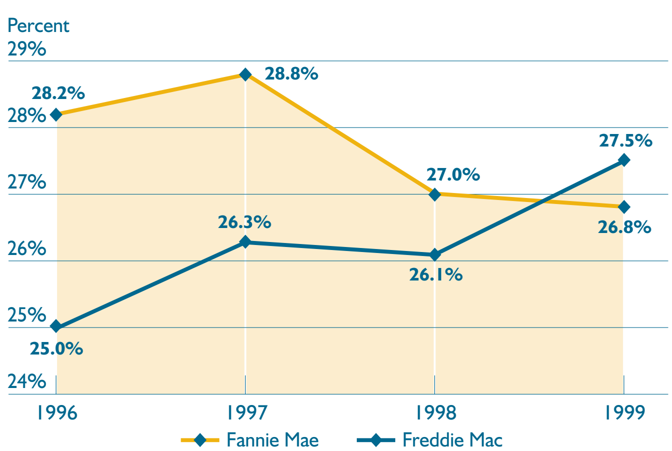


The market for multifamily properties is less sensitive to interest rate changes than the single family market. The increase in performance also reflects the efforts of HUD's 81 field offices to target underserved areas.

Fannie Mae and Freddie Mac

The Department sets targets for Fannie Mae and Freddie Mac in three public purpose areas. One of those is the percentage of mortgage purchases in central cities, rural areas, and other underserved areas (performance goal 4.2.b). In 1999 Fannie Mae exceeded their goal of 24 percent by achieving 26.8 percent. This was a slight decline from their 27.0 percent performance in 1998. Freddie Mac also surpassed their goal of 24 percent by achieving 27.5 percent. This was a moderate increase over their 1998 performance of 26.1 percent. HUD finalized a rule that increases the targets to 31 percent 2001.

Fannie Mae and Freddie Mac Mortgage Purchases In Underserved Areas



Strategic Objective 4.3: Communities are safe

Reducing crime around public and assisted housing is essential to revitalizing these neighborhoods and retaining affordable housing. Even small actions like reducing trash and litter may affect crime. Reducing crime in public housing is a high priority not only to revitalize public housing, but also to reduce the perception that public housing is linked to crime.

The 1999 AHS data show that 14.3 percent of the Nation's residents reported that there was crime in their neighborhood (performance goal 4.3.1). This was a significant decrease from 17.2 percent in 1997.

Contributing to the effort to reduce crime, the Department's Public Housing Drug Elimination Program (PHDEP) provides funding to Public Housing Agencies to pay for crime prevention, law enforcement, security guards, drug treatment, tenant patrols, physical security improvements, and youth prevention programs. To judge the program's effect on neighborhood safety, HUD measures the level of resident satisfaction with neighborhood security in housing developments targeted by PHDEP. For the year ending January, 2000, grantees reported that 57 percent of residents expressed satisfaction (performance goal 4.3.2).

Trends and Factors Affecting Strategic Goal 4

The country's recent economic growth has produced millions of new jobs, including many in central cities and other older communities. Still, there are sizable imbalances in the job market, with most jobs requiring high skill levels, while many persons seeking employment are looking for low-skill jobs. The changing structure of the global economy has made it challenging for communities to compete when capital is highly mobile, markets for goods and services are widely dispersed, and wages for low-skilled employment are much lower in many locations abroad.

Local shortages of low-skilled jobs are compounded by mismatches between the locations of available jobs and the residences of the unemployed. Many older communities across the country have adopted aggressive strategies to alleviate these mismatches but they face numerous barriers to success. Their tax rates generally exceed rates in newer communities because they struggle to provide quality services despite declining tax bases. Land development is complicated by scarcity of land, scattered and/or absentee ownership, real or perceived contamination, and the need for clearance or rehabilitation of existing physical structures.

Job development is complicated by large concentrations of poor residents. School systems attempt to provide the education and job skills essential for their students (who often face greater obstacles to learning), but in many cases, have fewer resources as tax bases decline and capital maintenance costs increase. Crime, whether real or perceived, deters businesses from locating in these communities. The extent to which residents of areas of concentrated poverty are increasingly minorities may add barriers of racial discrimination to the mix.

Rural communities face additional challenges because of the changing structure of the farming industry, under-investment, weak infrastructure, limited services, and few community institutions. Rural labor forces are more narrowly based and are more dispersed. Clearly, the ability of individual communities to control their own destinies in the area of job creation is limited. Both urban and rural communities are further affected by the extent to which their State provides financial assistance to overcome these obstacles. While ultimately job creation is dependent upon the investment decisions of the private sector, the coordinated efforts of all levels of government, along with the private sector, are needed to address these challenges.

Another factor which must be considered is that communities have a great deal of flexibility when using HUD funds to address their economic conditions. Many programs, including the Community Development Block Grants, may be used for a variety of eligible activities at the discretion of the grantee. When communities do choose to address job growth for low-income individuals, there are a wide variety of approaches that are difficult to measure. For example, one community may support infrastructure to increase business development in certain areas, while others may directly apply CDBG funds to readying individuals for employment.

Strategic Goal 5: Ensure Public Trust in HUD

HUD's stewardship of billions of Federal dollars must continually earn the confidence of Congress and the public. HUD has completed a fundamental overhaul to build performance, customer service, and accountability into every part of our operations. This section describes our progress in delivering results to customers, leading the national discussion of urban and housing policy, and preventing fraud, waste, and abuse in HUD program activities.

The Department has fundamentally overhauled HUD's programs and operations to make them more efficient and responsive. The intent is to help communities by making HUD's resources more easily accessible and by giving people the tools they need to succeed as individuals and communities. HUD also is continuing to better focus research efforts on timely and relevant policy issues and evaluations of HUD programs that support performance management under the Government Performance and Results Act (GPRA).

The Department has adopted a businesslike structure to better achieve our public purposes—to better support our partners and better serve our customers. HUD has centralized some operations to realize economies of scale, while decentralizing customer assistance functions to improve service delivery and innovation. It makes better use of technological advances to improve efficiency in both front-line service delivery and back-office processing centers, while simultaneously making information on HUD's programs and resources available to partners and the public through the Internet. HUD managers at all levels are now involved in strategic planning and performance management, by establishing internal annual Business and Operating Plans directly linked to the Annual Performance Plan (APP) for each field and headquarters office.

During FY 2000, HUD carried out the following:

- Supported accomplishment of HUD's Annual Performance Plan by helping all HUD managers shape business and operating plans that achieve results for customers and local communities.
- Expanded customer service and empowered our partners by building more storefront offices, installing electronic kiosks, and sharing best practices for housing and community development across the country.
- Provided technical assistance to and worked with partners to improve operations, ensure proper use of funds, and strengthen program performance reporting.
- Rated the quality of single-family housing appraisers to remove poorly performing appraisers from the FHA appraisal registry.
- Inspected the physical quality of public and assisted housing developments to ensure that they meet Departmental standards.
- Rated the performance of Independent Public Accountants that perform financial audits of PHAs and assisted multifamily properties, in order to debar accountants who perform poorly.
- Assessed the financial condition of approximately 3,200 PHAs and over 20,000 multifamily developments.
- Conducted computerized matching for 2.35 million households to identify individuals with potential unreported income and excess rental assistance.
- Trained employees and improved equipment and information systems for higher productivity.
- Conducted surveys of employees, partners, and customers and used the results to enhance programs and management.
- Expanded citizen access to information on HUD programs and their local implementation, both through citizen participation in the Consolidated Planning process and through electronic means, such as community mapping software and HUD's World Wide Web home page.

- Executed a performance-based appraisal process for all managers and executives that links performance objectives and standards to strategic goals and objectives.
- Utilized performance-based and outcome-based contracting to ensure that contracts for services are timely, cost-effective, and successful.

GAO's High Risk Designation

In 1994, the General Accounting Office designated all of HUD's major program areas as high risk, because of four major department-wide deficiencies, which undermined integrity and accountability: (1) internal controls; (2) information and financial management systems; (3) organizational structure; and (4) staffing. In its January 2001 report entitled "Major Management Challenges and Risk," GAO acknowledged that HUD has continued to make progress in addressing these problems. GAO stated that "we are defining and reducing the number of HUD programs deemed to be high-risk." Although two major programs—single family mortgage insurance and rental housing assistance—still remain high-risk, the Department-wide designation as a high-risk agency has been removed.

Evaluations

Employee satisfaction reflects the quality of relationships between program offices and directly affects the quality of work and productivity. HUD was one of many Federal agencies and departments that were surveyed in the National Partnership for Reinventing Government Survey in 1998, 1999, and again in 2000. The percentage of HUD employees with a favorable opinion of the quality of work continued to improve from 67 percent in FY 1998 to 71 percent in FY 1999 to 72 percent in FY 2000 (performance goal 5.1.1).

In 1999, HUD arranged to have its Community Development Block Grant partners surveyed as part of the American Customer Satisfaction Index (ACSI), a national study of customer satisfaction with the quality of goods and services provided by both public and private sectors. For HUD's survey, senior officials such as mayors of communities receiving block grants were asked about four major factors that drive customer satisfaction: perceived quality, customer expectations, customer complaints, and grantee trust. Their responses showed an overall 69 percent satisfaction rate. In 2000, the overall satisfaction rate was 68 percent (performance goal 5.1.2), which was similar to the national benchmark for both public (68.6 percent) and private (71.2 percent) organizations.

Means and Strategies

Workforce Empowerment and Efficiency. As recommended by the National Academy of Public Administration, HUD is implementing a resource estimation and allocation process in three phases. The Department has completed Phase I of the 3-phase implementation; Phase 3 is scheduled for completion by December, 2001. The process has involved establishing a baseline for estimating resource requirements and making staff allocations. The workplan will facilitate a more efficient and effective alignment of resources; establish a recruiting strategy; ensure leadership continuity for all grade levels; and provide a training and development blueprint for current and new employees.

eGovernment. The Department is implementing an eGovernment strategy that builds on the success of HUD's internet site, intranet, and current eCommerce initiatives. The strategy provides a roadmap for HUD in future use of Internet technology to better serve citizens, transact with business partners, and empower the workforce. The eGovernment Strategy includes plans to implement the Government Paperwork Elimination Act (GPEA), which mandates Federal agencies to provide an option for paper based transactions. In FY 2000, HUD:

- Developed the Government Paperwork Elimination Act (GPEA) Implementation Plan.
- Developed the eGov Strategic Plan.
- Formed HUD's eGov Working Group.

- Developed the HUD Guide to Electronic Government.
- Used HUD's Enterprise Architecture to identify eGov opportunities.

Data quality. HUD's Chief Information Officer (CIO) launched an enterprise-wide initiative, the Data Quality Improvement Program (DQIP). The CIO has partnered with the Chief Financial Officer (CFO) and the program offices to use DQIP to provide accurate, complete, consistent, timely, and valid data and to achieve Departmental data quality improvement. During FY 2000, the first 4 Data Quality Plans were completed:

- HUD Central Accounting System (HUDCAPS)
- FHA Subsidiary Ledger/MSA for Housing
- Real Estate Management System (REMS)
- Tenant Assessment SubSystem (TASS)

Enterprise Architecture for Information Systems. HUD is developing a comprehensive Enterprise Architecture (EA), which is a strategic base of information assets that defines business needs, the information systems necessary, and the technologies upon which these systems reside. HUD uses EA to direct its Information Technology (IT) Capital Investment Plan by providing the HUD-wide definition of HUD's current business and technology architecture baseline and how they should be aligned for the future. The completed EA will be used for guiding short and long-term systems development. The current initiative will transition the EA from design into practical application. During FY 2000, HUD developed the EA management system to serve as a repository and developed the baseline EA and initial target EA.

Configuration Management. Configuration Management (CM) is the ongoing process of identifying and managing changes to application systems through the information systems development and maintenance life cycles. HUD implementation of standard Department-wide CM practices will result in software integrity by: maintaining accurate inventory; providing traceability; ensuring changes are coordinated; and ensuring releases are planned and coordinated. The CIO is coordinating the effort to move all IT systems under automated CM tools; enforce the principles of a central Change Management Control Board (CMCB); and move toward Carnegie-Mellon University's Systems Engineering Institute (SEI) Capability Maturity Model (CMM) practices. In FY 2000, HUD implemented 13 of its mission-critical applications under CM tools and established a program to complete implementation of all HUD's applications.

Enterprise Security Program. HUD has become increasingly dependent upon automated information systems, networks, and the Internet to carry out our mission. The CIO is creating a comprehensive Enterprise Security Program that will address the infrastructure, framework, and resources necessary to provide adequate security measures and safeguards to protect our information resources from unauthorized access, use, modification, and disclosure. During FY 2000, HUD developed the policies for the Critical Infrastructure Assurance program, wrote the handbook, and created a training program.

Business Process Improvement. HUD is adopting BPI so its programs will be more responsive to client needs, while also reflecting the standards of quality that the American public deserves. BPI will align staff, business processes, and technology with HUD's strategic goals. BPI will help achieve goals of redefining and streamlining processes; organizing, motivating, and empowering HUD's people; and capitalizing on advances in technology. In FY 2000, the CIO laid the groundwork for future BPI initiatives by publishing the basic policy documents and initiating discussions with key program offices. HUD has fully embraced the concept of BPI, particularly in the critical Information Technology area.

Strengthening Partnerships. HUD has undertaken extensive and wide-ranging consultations to enhance our performance partnerships with State and local governments and for-profit and non-profit organizations. The long-term and complex nature of HUD's relationships with our partners necessitates extensive oversight to ensure high standards and quality service. HUD has established four offices that are responsible for assessing HUD's properties, enforcing standards, assisting partners, and ensuring sound financial management:

- The Real Estate Assessment Center (REAC)
- The Troubled Agency Recovery Centers (TARCs)
- The Departmental Enforcement Center (EC)
- The Financial Management Center (FMC)

Real Estate Assessment Center

REAC provides assessments of physical condition, financial soundness, management capability, and resident satisfaction in HUD's real estate portfolio. It also facilitates verification of the income of public housing recipients to ensure that housing subsidies are properly paid, and assesses the quality of single family appraisals performed for new homebuyers. The Center regularly processes information related to over 27,000 property inspections, 33,000 financial statements, 4.5 million tenant verifications, and approximately one million single family appraisals performed for homebuyers.

Resident Satisfaction. The recipients of HUD housing assistance constitute one of the largest groups of direct customers of HUD. During FY 2000, REAC conducted a random sample survey of 279,000 HUD-assisted renters and public housing tenants, 87 percent of whom were satisfied or very satisfied with "overall living conditions" (performance goal 5.1.3).

Tenant Income Verification. HUD's rental assistance programs are administered by about 3,190 **p**ublic housing agencies and over 28,400 **o**wners and management **a**gents (collectively referred to as POAs). The Department determines rental subsidies based primarily on the amount of income reported by tenants. To the extent that tenants under-report their income, the Department pays excess subsidies.

In FY 1999, REAC developed an automated Tenant Eligibility Assessment Subsystem that allows HUD to conduct computer matching of tenant-reported income maintained in HUD's tenant databases with Federal tax information. In FY 2000, REAC completed the computer matching of records for 4.5 million individuals in 2.35 million households to Federal tax information. The matching initially identified about 280,000 tenants with potential income discrepancies. After eliminating tenants who no longer receive rental assistance, the REAC reduced that number to 216,000 individual tenants. REAC sent letters to the tenants with potential income discrepancies. The letters identify the tenants' Federal tax information and inform the tenants of their responsibility to disclose the data to program administrators. REAC also sent program administrators a list of their tenants who were sent letters concerning potential income discrepancies.

To aid administrators and tenants in the income discrepancy resolution process, REAC established Technical Assistance Centers in Chicago and Seattle to respond to telephone inquiries about the computer matching and income verification program. During FY 2000, the Centers serviced about 25,000 telephone inquiries.

During FY 2000, HUD (in coordination with tenant organizations, and housing industry associations) developed an Income Discrepancy Resolution Guide. The Guide provides detailed instruction for use by POAs in resolving income discrepancies with tenants. POA staff electronically submit periodic status reports on their resolution of tenant income discrepancies. The automated status reports, which should be available in significant quantities during the first quarter of FY 2001, will provide information to monitor and evaluate the income-matching program.

Additionally, REAC uses computer matching to provide POAs with Social Security (SS) and Supplemental Security Income (SSI) information that REAC receives from the Social Security Administration. REAC electronically provides information each month to POAs for tenants who will recertify for rental assistance four months later. The SS and SSI matching program is operational for all POAs. The POAs use this information to help ensure that tenants report all SS and SSI income as required. The program also reduces the burden on tenants to provide documents during the annual process of (re)examining their eligibility and level of rental assistance.

Physical Inspections. The REAC examined 27,262 properties in FY 2000, a slight decline from the 28,610 conducted in FY 1999. The purpose of these inspections is to identify the extent to which public and MF housing properties meet HUD's physical condition standards, and to use inspection results as a basis for immediate correction of exigent health and safety deficiencies and overall improvement of compliance with physical condition standards.

Multifamily Financial Statements. MF projects are required to electronically submit annual financial compliance audit information to the REAC's Financial Assessment Subsystem. These submissions facilitate risk-based monitoring and management of program compliance requirements to reduce the financial risk related to the MF housing portfolio. For the first submission cycle for project fiscal years ending 12/31/98 – 12/30/99, 19,222 financial statements were required. Of this number, REAC received and reviewed 18,892, and the number will increase as overdue submissions for this cycle continue to be received. Of the 18,892 submissions received, 71 percent had no financial compliance deficiencies (restated performance goal 5.1.6). Of the 5,454 submissions with deficiencies, REAC referred 696 to the Departmental Enforcement Center and the remaining 4,758 to MF Housing staff for additional action.

Public Housing Assessment System (PHAS)

During FY 1999, HUD began replacing the Public Housing Management Assessment Program (PHMAP) with the new Public Housing Assessment System. Under the PHMAP, PHAs self-certified as to their performance, and the process came under criticism as inadequate and lacking integrity. The PHAS was developed to provide a more comprehensive and independent assessment of a Public Housing Agency's (PHA's) performance and risk to HUD. The PHAS aggregates the scores of the following four component indicators:

1. Physical Condition, based on annual HUD project inspections (30 points),

2. Financial Condition, based on annual financial statements and compliance audits (30 points),

3. Management Performance, based on annual PHA certifications (30 points), and

4. Resident Satisfaction, based on annual resident surveys (10 points).

The scores of each of the four component indicators are aggregated in conjunction with a PHA's fiscal year-end to arrive at an integrated or combined PHAS "score" and "designation" in one of the following categories:

- **High Performers:** Overall PHAS Score of 90 or greater .

- **Standard Performers:** PHAS Score of 60 to 89 with no score less than 18 for the component indicators for Physical Condition, Financial Condition or Management Performance (Indicator Nos. 1, 2 or 3).

- **Troubled Performers:** PHAS Score less than 60 or between 60 and 89 with at least one component (Indicator Nos. 1, 2 or 3) with a substandard score (less than 18).

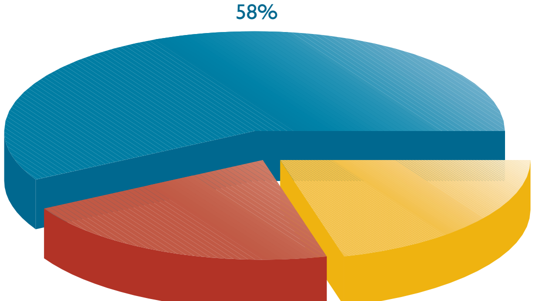
The PHAS scores and underlying information provide a basis for HUD staff to target risk-based monitoring efforts, as well as necessary technical assistance and program intervention. High performing PHAs receive less HUD oversight and can be eligible for certain funding preferences.

The PHAS rule was originally scheduled to be effective for PHAs with fiscal years ending September 30, 1999, and thereafter. At that point, HUD ceased PHMAP scoring and began collecting and assessing data on all four PHAS components. PHA fiscal years end on calendar year quarters, with a fairly even distribution of PHAs between each quarter. The first full cycle of complete PHAS scores is for PHAs with fiscal years ending 9/30/99, 12/31/99, 03/31/00 and 06/30/00. Due to delays in the formal implementation of the PHAS rule, the scores applicable to the first three quarters of this cycle are considered "advisory scores."

While the PHAS rule is now considered in effect for PHAs with fiscal years ending June 30, 2000, and thereafter, the Conference Report on HUD's FY 2001 Appropriations Act stipulated that HUD not take action based solely on PHAS scores until it has addressed and reported on GAO recommended improvements to quality controls over HUD's new physical inspection process. HUD expects to have those improvements completed and reported on in March 2001.

The distribution of designations and scores for PHAs with complete PHAS scores for the first full PHAS cycle are shown in the following chart and table:

PHA Performance Assessment
2,852 PHAs (with 899,569 Units)



FY 2000 PHAS Designations
Advisory Scores for PHAs with
Fiscal Years 9/30/99 through 6/30/00

	PHAs	No. of Units
High Performer	615	139,394
Standard Performer	1,649	463,220
Troubled – Physical Only	(213)	(163,564)
Troubled – Management Only	(41)	(3,548)
Troubled – Financial Only	(229)	(67,816)
Troubled – Overall*	(105)	(62,027)
Troubled – Total	588	296,955
Total Scored	2,852	899,569

** PHA with a score less than 60 or with more than one sub-standard component*

Complete PHAS scores were available for 2,852 or 90 percent of the 3,171 PHAs active during this cycle. Scores not yet available or reported are primarily due to filing extensions, waivers and pending appeals.

Troubled Agency Recovery Centers

TARCs assist public housing agencies in correcting major physical, financial and management deficiencies. HUD measures the performance of PHAs in major areas such as compliance with housing quality standards, financial soundness, vacancy rates and unit turnaround time, and efforts to modernize units. HUD assesses PHA performance in these various areas in order to determine troubled agencies in need of technical assistance and program intervention. In worst case situations, HUD can takeover a PHA or seek a court appointed receiver to replace PHA management.

Under the Public Housing Management Assessment Program (PHMAP)—the rating system that was previously in effect and is still being phased out—a total of 52 PHAs were classified as troubled performers at the end of FY 2000, up two from the previous year. The TARC has been successful in helping troubled performers recover by working with troubled PHAs to address their management and operating difficulties. During

FY 2000, 19 agencies recovered and were removed from the troubled list. However, 21 other PHAs were designated as troubled and eligible for TARC intervention on the basis of poor PHMAP scores.

Following full implementation of the more rigorous Public Housing Assessment System in FY 2001, the number of troubled and sub-standard performers may increase substantially. For PHAs with fiscal years ending September 30, 1999 through June 20, 2000, 588 or 21 percent of the 2,852 PHAs with PHAS or PHAS advisory scores were considered troubled. These troubled PHAs managed 33 percent of PHA units (performance goal 5.1.4).

Departmental Enforcement Center

The DEC addresses serious non-compliance with statutory and regulatory requirements for multifamily housing. The center fights "bad landlords" by combining all non-civil rights compliance and enforcement actions into one organization. DEC began operations on September 1, 1998, to centralize the management of enforcement initiatives so HUD could be more effective in bringing resolution to the most difficult and significant noncompliance issues among the recipients of the Department's program resources. Although, DEC is organizationally autonomous, it functions in a collaborative manner with other HUD program offices. By taking aggressive enforcement action on Multifamily and public housing referrals for noncompliance violations, HUD has moved closer to restoring the public trust in its ability to provide decent, safe, and sanitary housing for low and moderate income households.

During FY 2000, DEC actions resulted in savings of $29.7 million to the Federal government through recoveries obtained, savings in program funds, and avoidance of insurance claims. Monetary recoveries from judgments, assessments of penalties, and settlements increased to $19.1 million in FY 2000 from $15.5 million in FY 1999. Enforcement actions resulted in pre-payments from owners of $29 million in FY 2000 compared to $4.6 million in FY 1999. Loan indemnifications assessed were $10.6 million in FY 2000 versus $3.1 million in FY 1999.

During FY 2000, 759 enforcement actions which were referred to DEC by REAC and MultiFamily Housing were closed, an increase of 57 percent from 483 cases closed in FY 1999. Enforcement Center actions resulted in 41,344 housing units being restored to decent, safe, and sanitary conditions, versus just 968 in FY 1999. FY 2000 also saw a notable increase in administrative sanctions (including debarments, suspensions, and limited denials of participation) to 1,470 in FY 2000 compared to 660 administrative sanctions in FY 1999.

Financial Management Center (FMC)

In FY 1999, FMC became responsible for the financial management of the Public and Indian Housing (PIH) tenant-based and Office of MF Housing project-based Section 8 programs which HUD administers with Annual Contributions Contracts (ACCs). FMC provides financial management support for approximately 10,400 ACCs. HUD uses annual budgets and requisitions/ payment schedules to advance funds to the Housing Authorities (HAs) and Contract Administrators (CAs) that administer these programs.

The Center must approve all budgets and payment schedules to allow for payment on the first date of the budget period. At the end of FY 2000, a total of 234 (2.2 percent) projects nationwide did not have their payments scheduled, compared with 239 ACCs (2.3 percent) at the end of FY 1999 which did not have their payments scheduled. The 234 projects include terminated projects, expired projects for which renewal funds have not been provided, and projects which had not submitted a budget and requisition.

HAs/CAs must also submit year-end settlements within 60 days of the end of the fiscal year to the Center, because the settlement is the only vehicle to identify and recoup excess advances made to the HAs/CAs and since it is the only source document that identifies excess reserves that HUD should recapture. In FY 2000, FMC modified its procedures to clearly identify settlements it has not received on-time, enable closer oversight, and ensure greater accountability and collection of excess advances. The most significant settlements are those relating to PIH certificate and voucher programs, as HUD must analyze reserves annually to determine excess, and because current procedures provide funding for only a one-year term. During FY 2000, settlements were due on 4,829 certificate and voucher programs and have not been received on only 44 (less than one percent).

FMC has processes to review, reconcile, and approve at least 90 percent of year-end settlements within 30-days of receipt; to schedule underpayments for immediate payment; and to offset overpayments with the next available payment. During FY 2000, FMC did not always achieve this goal. The FMC was unable to close any settlements for a period of time due to recapture activities and accounting system anomalies. In FY 2000, the FMC gave priority to closing all settlements for tenant-based Certificate and Voucher programs prior to the recapture and met that goal fully.

HUD requires FMC to identify incidences of rejected payments and have them corrected within 3 business days. The Center has developed a process to identify all rejected payments. When it began this process in June 1998, FMC identified 248 of 6,025 tenant-based ACCs that had payments rejected. In November 1999, the Center reported only 47 of 10,400 tenant- and project-based ACCs had payments rejected. At the end of FY 2000, approximately one percent of contracts had rejected payments. Rejections are infrequent and are generally due to insufficient budget authority or a technical problem.

The FMC ensures that contracts are established for all reserved funds within 60 days of receipt unless delayed by some type of HUD action. The Center has unilateral contracting authority for all tenant-based ACCs (the Center's financial analysts contract these funds in a timely fashion). Since the contracting action for tenant-based incremental funding and MF project-based ACCs is less controllable, the Center has developed controls to identify uncontracted funds for these programs and to facilitate establishment of the contracts. The FMC also maintains a status report on all MF contracts due for renewal in a given year and tracks progress via bi-weekly updates.

The FMC is required to identify rejected payment vouchers and pay the vouchers within 21 business days if payment is within HUD's control. In mid-1999, the Office of Housing allowed owners to merge multiple Housing Assistance Payment (HAP) contracts on a single property into one contract at the time of the next renewal. This change caused the number of rejected vouchers to triple to approximately 1,000 per month. FMC has modified its procedures to expedite the review of rejected vouchers and has made recommendations to field offices and HAP owners on how to reduce the frequency of rejections.

Trends and Factors Affecting Strategic Goal 5

Ensuring Public Trust in HUD requires that HUD both ensures operational consistency in reforms it has already instituted, and completes effective corrective actions on remaining material management control weaknesses and other concerns discussed in the "Financial Management Accountability" and "Management and Performance Challenges and Progress" sections of this report.

While the GAO has acknowledged HUD's progress in improving its management control environment and reducing risks in major program areas, additional actions are needed to further reduce risks associated with HUD's single family mortgage insurance and rental subsidy programs, and to improve HUD's information systems and management of its human capital.

To better assure operational consistency, it is essential that HUD complete the implementation of a resource estimation and allocation process, to provide a more systemic means of estimating resource needs and managing workload. As it is unlikely HUD will receive any significant staffing increase, it is also essential that efforts continue to improve upon the use of risk-based monitoring techniques in HUD programs, to use existing staff and program resources more efficiently and effectively. When significant performance and compliance problems are identified—be they from single family mortgage lenders, MF project owners or agents, PHAs, local governmental entities, or other participants—HUD must act appropriately to address those problems to minimize the risk and further program objectives.

In the area of information systems, the Office of the Chief Information Officer has instituted many process improvements to better support the planning, development and maintenance of HUD's Information Technology (IT) investments. However, it is essential that HUD program managers assume a stronger systems ownership role in assuring that systems requirements and controls over data quality are properly established to better support their program delivery and mission.

To address material weaknesses in rental subsidy programs, HUD will need the cooperation of its program partners and tenant groups to push for simplification of program requirements and improved internal controls for assuring that subsidy payments go to those for whom they were intended, in the proper amounts. Statutory change may be required to simplify and standardize subsidy program requirements, thereby reducing administrative burdens and costs and the risk of payment errors.

Secretary Mel Martinez has stated that his "agenda starts with good strong management . . . the first thing is to get your house in order." Working as partners with Congress, HUD will continue to improve both program and financial accountability in order to ensure the public trust.